

# **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, 2007 with Summarized Financial Information for the Year  
Ended June 30, 2006**

**Connecticut State University System**  
**Index to Combined Financial Statements**  
**June 30, 2007 and 2006**

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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 foundations – “Foundations”) at June 30, 2007 and 2006, and combined revenues, expenses and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 \$60.6 million and \$ 52.8 million as of June 30, 2007 and 2006, respectively, and total revenues of \$ 12.6 million and \$ 12.1 million for the years ended June 30, 2007 and 2006, 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 14 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.

January 8, 2008

# Connecticut State University System

## Management's Discussion and Analysis (Unaudited)

### June 30, 2007 and 2006

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#### 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, 2007 with comparative information for the fiscal years ended June 30, 2006 and 2005. 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 35,400 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 3,200 full time employees at June 30, 2007.

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 accordance with Governmental Accounting Standards Board Statement No.39, *Determining Whether Certain Organizations are Component Units*, 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, 2007, total assets of the System were \$1,274.4 million, a decrease of \$3.1 million or .2% from the prior year amount of \$1,277.5 million, primarily due to a decrease in cash, cash equivalents and investments of \$10.7 million offset by an increase in net capital assets of \$7.3 million. The increase in net capital assets was indicative of the State's ongoing commitment to building construction and enhancements to existing buildings. 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

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June 30, 2007 and 2006**

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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.

Total liabilities at June 30, 2007, of \$566.4 million decreased by \$20.1 million or 3.4% from the prior year level of \$586.5 million primarily due to a decrease in bonds as a result of \$19.5 million in bond payments and a decrease of \$2.6 million in bond premium due to amortization plus write-offs in connection with the current year bond refunding. 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 resulted from the fact that there were no new issuances during the year coupled with bond repayments of \$16.3 million.

At June 30, 2007, total net assets, which represent the residual interest in the System's assets after liabilities are deducted, were \$708.0 million, an increase of \$17.0 million or 2.5% over last fiscal year's net assets of \$691.0 million. During the fiscal year, the System experienced a \$64.8 million reduction in the amount of change in net assets compared to fiscal year 2006. This reduction was primarily due to decreases in State financed plant facilities of \$60.9 million and State appropriations for capital purchases of \$6.1 million offset by an increase in investment income of \$1.1 million. At June 30, 2006, total net assets 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 2006 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.

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June 30, 2007 and 2006**

**Statement of Net Assets**

| <b>SUMMARY OF NET ASSETS</b>                 |                |                |                |                                 |                                 |
|--|----------------|----------------|----------------|---------------------------------|---------------------------------|
| <b>June 30, 2007, 2006 and 2005</b>          |                |                |                |                                 |                                 |
| <b>(\$ In millions)</b>                      |                |                |                |                                 |                                 |
|  |                |                |                | \$                              | %                               |
|  | 2007           | 2006           | 2005           | Increase<br>(Decrease)<br>06-07 | Increase<br>(Decrease)<br>06-07 |
| Current Assets                               | \$288.1        | \$279.3        | \$325.0        | \$8.8                           | 3.1                             |
| Non-Current Assets:                          |                |                |                |                                 |                                 |
| Capital Assets, net                          | 844.8          | 837.5          | 726.6          | 7.3                             | .9                              |
| Other  | 141.5          | 160.7          | 140.7          | (19.2)                          | (11.9)                          |
| <b>Total Assets</b>                          | <b>1,274.4</b> | <b>1,277.5</b> | <b>1,192.3</b> | <b>(3.1)</b>                    | <b>(.2)</b>                     |
| Current Liabilities                          | 210.5          | 210.2          | 184.4          | .3                              | .1                              |
| Non-current liabilities                      | 355.9          | 376.3          | 398.7          | (20.4)                          | (5.4)                           |
| <b>Total Liabilities</b>                     | <b>566.4</b>   | <b>586.5</b>   | <b>583.1</b>   | <b>(20.1)</b>                   | <b>(3.4)</b>                    |
| <b>Net Assets</b>                            |                |                |                |                                 |                                 |
| Investment in Plant – Net of<br>Related Debt | 618.9          | 616.3          | 532.6          | 2.6                             | .4                              |
| Restricted                                   |                |                |                |                                 |                                 |
| Expendable                                   | 27.3           | 28.5           | 38.6           | (1.2)                           | (4.2)                           |
| Non-expendable                               | .9             | .5             | .6             | .4                              | 80.0                            |
| <b>Total Restricted</b>                      | <b>28.2</b>    | <b>29.0</b>    | <b>39.2</b>    | <b>(.8)</b>                     | <b>(2.8)</b>                    |
| Unrestricted                                 | 60.9           | 45.7           | 37.4           | 15.2                            | 33.3                            |
| <b>Total Net Assets</b>                      | <b>\$708.0</b> | <b>\$691.0</b> | <b>\$609.2</b> | <b>\$17.0</b>                   | <b>2.5</b>                      |

Current assets at June 30, 2007 of \$288.1 million showed an increase of \$8.8 million or 3.1% primarily due to increases in cash of \$14.4 million offset by decreases in investments of \$6.2 million. Total current assets represent coverage of current operating expenses excluding depreciation and amortization for approximately seven months. The System's current ratio at the end of the fiscal year was 1.4:1 compared to the June 30, 2006 level of 1.3:1.

Current assets at June 30, 2006 of \$279.3 million showed a decrease of \$45.7 million or 14.1% primarily due to decrease in investments of \$62.9 (due to an increase in construction) offset by increases in cash of \$14.5 million and net student receivables of \$3.6 million. 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 1.3:1 compared to the June 30, 2005 level of 1.8:1.

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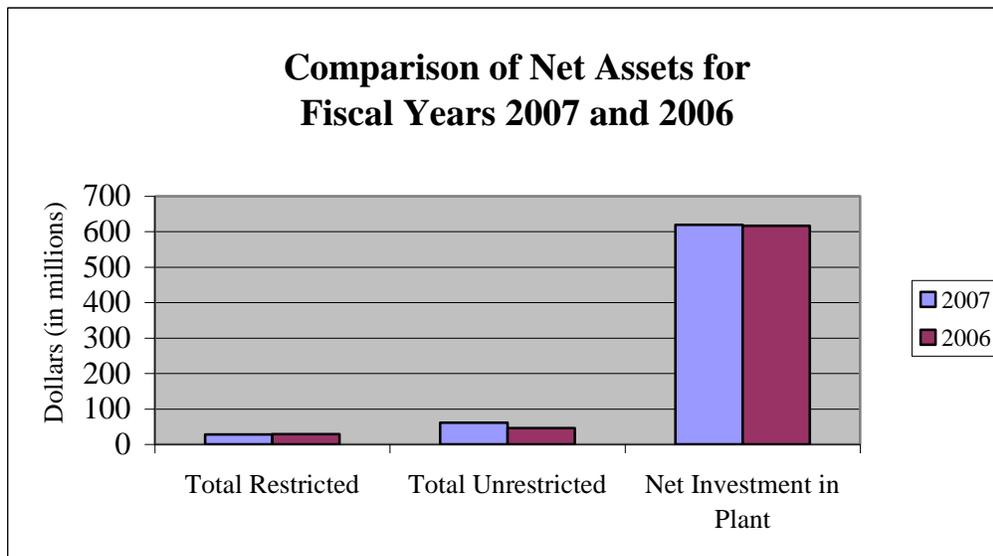
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This decrease in current ratio was due to higher year-end accruals in salaries and related expenses and accounts payable.

Total non-current assets at June 30, 2007 of \$986.3 million, decreased by \$11.9 million or 1.2% from the fiscal year 2006 level of \$998.2 million. This decrease was primarily due to reductions in non-current cash and investments of \$18.9 million offset by net additions to capital assets of \$7.3 million. Total non-current assets at June 30, 2006 of \$998.2 million increased by \$130.9 million or 15.1% over the fiscal year 2005 level of \$867.3 million. This increase was primarily due to net additions to capital assets of \$110.9 million and long-term cash of \$21.5 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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| <b>NET INVESTMENT IN PLANT</b>                  |                |                |                |                                 |                                 |
|---|----------------|----------------|----------------|---------------------------------|---------------------------------|
| <b>June 30, 2007, 2006 and 2005</b>             |                |                |                |                                 |                                 |
| <b>(\$ In millions)</b>                         |                |                |                |                                 |                                 |
|   |                |                |                | \$                              | %                               |
|   | 2007           | 2006           | 2005           | Increase<br>(Decrease)<br>06-07 | Increase<br>(Decrease)<br>06-07 |
| Land  | \$18.5         | \$18.5         | \$18.5         | \$ -                            | -                               |
| Buildings & Improvements                        | 953.2          | 910.7          | 733.4          | 42.5                            | 4.7                             |
| Land Improvements                               | 71.7           | 70.3           | 67.7           | 1.4                             | 2.0                             |
| Furniture, Fixtures & Equipment                 | 116.1          | 110.2          | 98.0           | 5.9                             | 5.4                             |
| Library books and materials                     | 56.6           | 54.0           | 50.7           | 2.6                             | 4.8                             |
| Construction in progress                        | 33.7           | 44.8           | 97.7           | (11.1)                          | (24.8)                          |
|   |                |                |                |                                 |                                 |
| <b>Total Investment in Plant</b>                | <b>1,249.8</b> | <b>1,208.5</b> | <b>1,066.0</b> | <b>41.3</b>                     | <b>3.4</b>                      |
| Less Accumulated Depreciation                   | 405.0          | 371.0          | 339.4          | 34.0                            | 9.2                             |
| <b>Investment in Plant, Net of Depreciation</b> | <b>\$844.8</b> | <b>\$837.5</b> | <b>\$726.6</b> | <b>\$7.3</b>                    | <b>.9</b>                       |

At fiscal year end June 30, 2007, the System had \$1,249.8 million invested in plant assets, an increase of \$41.3 million or 3.4% over the fiscal year end 2006 level of \$1,208.5 million. This increase was primarily due to major enhancements of existing buildings during the fiscal year. Total additions to depreciable capital assets of \$57.7 million during the fiscal year were indicative of the State's continued commitment to long term capital investment at the CSUS Universities.

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 State's commitment to long term capital investment at the CSUS Universities.

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 years 2005, 2006, and 2007, under Governor M. Jodi Rell's administration, an additional \$279.2 million was allocated by the Bond Commission for CSUS capital projects, bringing the total amount of allocations to CSUS since 1997 to \$631.5 million.

In addition to its capital plan for academic and related facilities that are supported by State general obligation bonds, the System is in the eleventh year of its long-range capital plan for the renovation and development of auxiliary service facilities. Funds available from six CHEFA bond issues totaled \$375.4 million. The auxiliary service capital plan was last reviewed and updated in 2005 and requires approximately \$100.9 million in additional funds to finance projects identified through fiscal year 2009.

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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**

| <b>SUMMARY OF REVENUES, EXPENSES AND<br/>CHANGES IN NET ASSETS<br/>June 30, 2007, 2006 and 2005<br/>(\$ In millions)</b> |                |                |                |                                 |                                 |
|--|----------------|----------------|----------------|---------------------------------|---------------------------------|
|  |                |                |                | \$                              | %                               |
|  | 2007           | 2006           | 2005           | Increase<br>(Decrease)<br>06-07 | Increase<br>(Decrease)<br>06-07 |
| <b>Operating Revenues</b>  |                |                |                |                                 |                                 |
| Tuition and fees   | \$190.5        | \$179.1        | \$174.7        | \$11.4                          | 6.4                             |
| Auxiliary revenues   | 74.6           | 67.9           | 62.0           | 6.7                             | 9.9                             |
| Grants & Indirect Cost Recoveries  | 44.4           | 43.7           | 37.3           | .7                              | 1.6                             |
| Other  | 17.7           | 13.6           | 20.8           | 4.1                             | 30.1                            |
| <b>Total Operating Revenues</b>  | <b>327.2</b>   | <b>304.3</b>   | <b>294.8</b>   | <b>22.9</b>                     | <b>7.5</b>                      |
| <b>Less: Operating Expenses before depreciation and amortization</b>   | <b>529.8</b>   | <b>496.9</b>   | <b>464.9</b>   | <b>32.9</b>                     | <b>6.6</b>                      |
| Depreciation   | 40.8           | 38.8           | 34.0           | 2.0                             | 5.2                             |
| Amortization   | .4             | .3             | 8.1            | .1                              | 33.3                            |
| <b>Operating Loss</b>  | <b>(243.8)</b> | <b>(231.7)</b> | <b>(212.2)</b> | <b>12.1</b>                     | <b>5.2</b>                      |
| <b>Non-Operating Revenues and Other</b>  |                |                |                |                                 |                                 |
| State Appropriations   | 236.9          | 229.9          | 225.2          | 7.0                             | 3.0                             |
| Investment Income  | 13.6           | 12.5           | 6.1            | 1.1                             | 8.8                             |
| Other  | 10.3           | 71.1           | 79.5           | (60.8)                          | (85.5)                          |
| <b>Total Non-Operating Revenues</b>  | <b>260.8</b>   | <b>313.5</b>   | <b>310.8</b>   | <b>(52.7)</b>                   | <b>(16.8)</b>                   |
| Increase in Net Assets   | 17.0           | 81.8           | 98.6           | (64.8)                          | (80.2)                          |
| Net Assets, beginning of year  | 691.0          | 609.2          | 510.6          | 81.8                            | 13.4                            |
| <b>Net Assets, end of year</b>   | <b>\$708.0</b> | <b>\$691.0</b> | <b>\$609.2</b> | <b>\$17.0</b>                   | <b>2.5</b>                      |

In fiscal year 2007, total revenues of \$588.0 million increased by \$29.8 million or 4.8% compared to the fiscal year 2006 level of \$617.8 million. Operating revenues of \$327.2 million at June 30, 2007 increased by \$22.9 million or 7.5% from the previous year, primarily due to increases in tuition and fees of \$11.4 million, auxiliary income of \$6.7 million and other operating revenues of \$4.1 million. The increase in tuition and fees over the prior year is due to a 5.9% increase in in-state undergraduate tuition and required fees coupled with a 1.5% increase in total annualized FTE enrollment. 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

# Connecticut State University System Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

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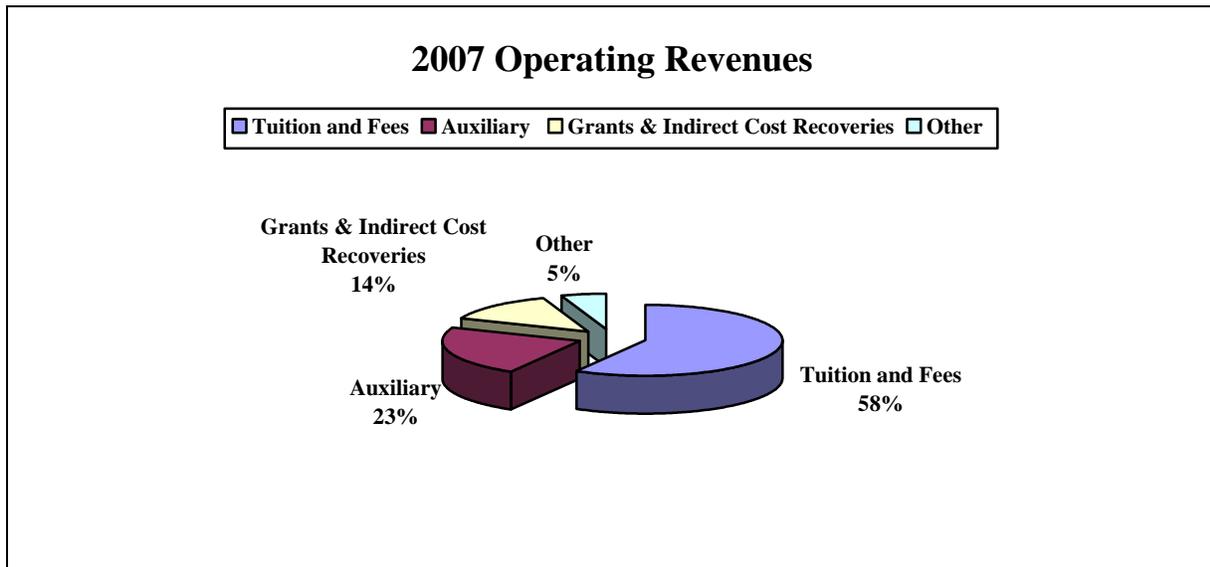
million. Operating revenues of \$304.3 million at June 30, 2006 increased by \$9.5 million or 3.2% from the previous year, primarily due to increases in Federal and State grants of \$6.1 million and ancillary and program revenues of \$5.9 million. The increase in tuition and fees over the prior year was due to a 5.8% increase in in-state undergraduate tuition and required fees and a 1.6% increase in total annualized FTE enrollment.

In fiscal year 2007, state appropriations of \$236.9 million, which represent 40.3% of the System's total revenues, were \$7.0 million or 3.0% above fiscal year 2006. State appropriations are received for both operating and capital purposes. In the current year the System earned \$226.0 million for operating purposes and \$10.9 million for capital purposes. These receipts were 6.2% above and 36.2% below the prior year levels, 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 67% of the System's salary and fringe benefit costs are funded from State appropriations. The receipt of title to plant facilities of \$7.2 million during the fiscal year decreased by \$60.9 million or 89.5% from the prior year's level of \$68.1 million. The decrease was due to a reduction in completion of construction of major projects at our Universities. At June 30, 2006, 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.

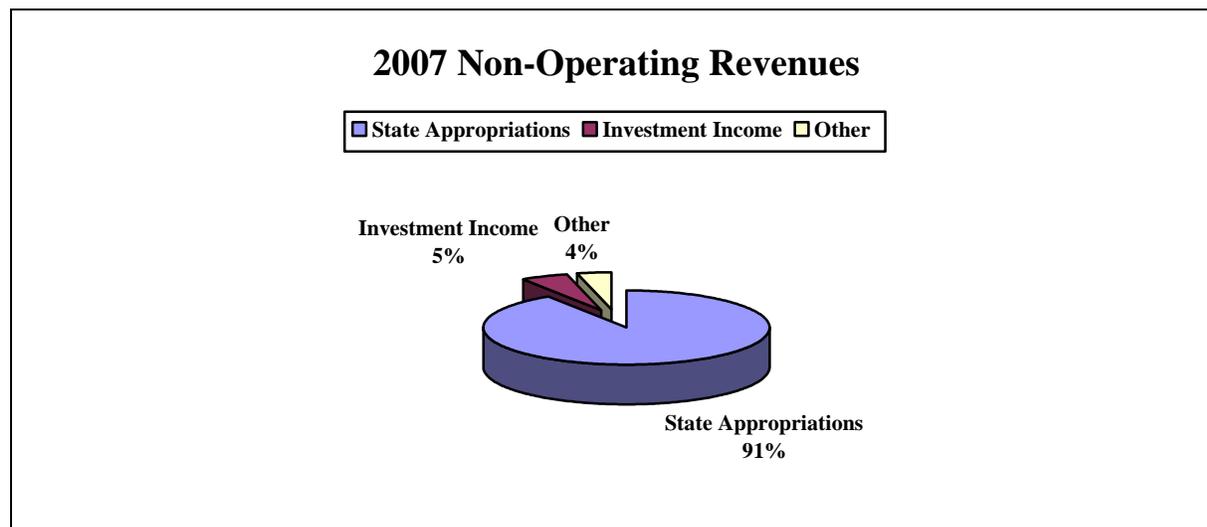
Investment income of \$13.6 million reflected an increase of \$1.1 million or 8.8% above fiscal year 2006. This increase in investment income was due to an increase in interest rates in fiscal year 2007.

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

## Revenue by Source



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| <b>OPERATING EXPENSES</b>           |                |                |                |                                 |                                 |
|-------------------------------------|----------------|----------------|----------------|---------------------------------|---------------------------------|
| <b>June 30, 2007, 2006 and 2005</b> |                |                |                |                                 |                                 |
| (\$ In millions)                    |                |                |                |                                 |                                 |
|                                     |                |                |                | \$                              | %                               |
|                                     | 2007           | 2006           | 2005           | Increase<br>(Decrease)<br>06-07 | Increase<br>(Decrease)<br>06-07 |
| <b>Operating Expenses</b>           |                |                |                |                                 |                                 |
| Personnel service and fringes       | \$356.5        | \$336.1        | \$310.3        | \$20.4                          | 6.1                             |
| Professional services and contracts | 23.6           | 22.3           | 19.0           | 1.3                             | 5.8                             |
| Educational and support services    | 61.5           | 56.3           | 50.6           | 5.2                             | 9.2                             |
| Facilities                          | 59.2           | 54.6           | 58.8           | 4.6                             | 8.4                             |
| Other                               | 29.0           | 27.6           | 26.2           | 1.4                             | 5.1                             |
| Depreciation                        | 40.8           | 38.8           | 34.0           | 2.0                             | 5.2                             |
| Amortization                        | .4             | .3             | 8.1            | .1                              | 33.3                            |
| <b>Total Operating Expenses</b>     | <b>\$571.0</b> | <b>\$536.0</b> | <b>\$507.0</b> | <b>\$35.0</b>                   | <b>6.5</b>                      |

For the year ended June 30, 2007, total operating expenses less depreciation and amortization of \$529.8 million increased by \$32.9 million or 6.6% over the prior fiscal year. Personnel services and fringes increased by 6.1% due to annual employee increases ranging between 4% and 6% as well as the hiring of certain key positions in the areas of faculty, academic support, and student support. Education and support services increased by \$5.2 million due to the high level of financial aid granted to students during the year; and facilities increased by \$4.6 million, primarily reflecting increased energy costs during the year. Total operating expenses including depreciation and amortization of \$571.0 million for fiscal year 2007 increased by \$35.0 million or 6.5% over fiscal year 2006, primarily due to increases in personnel services and related fringes, facilities and educational and support services.

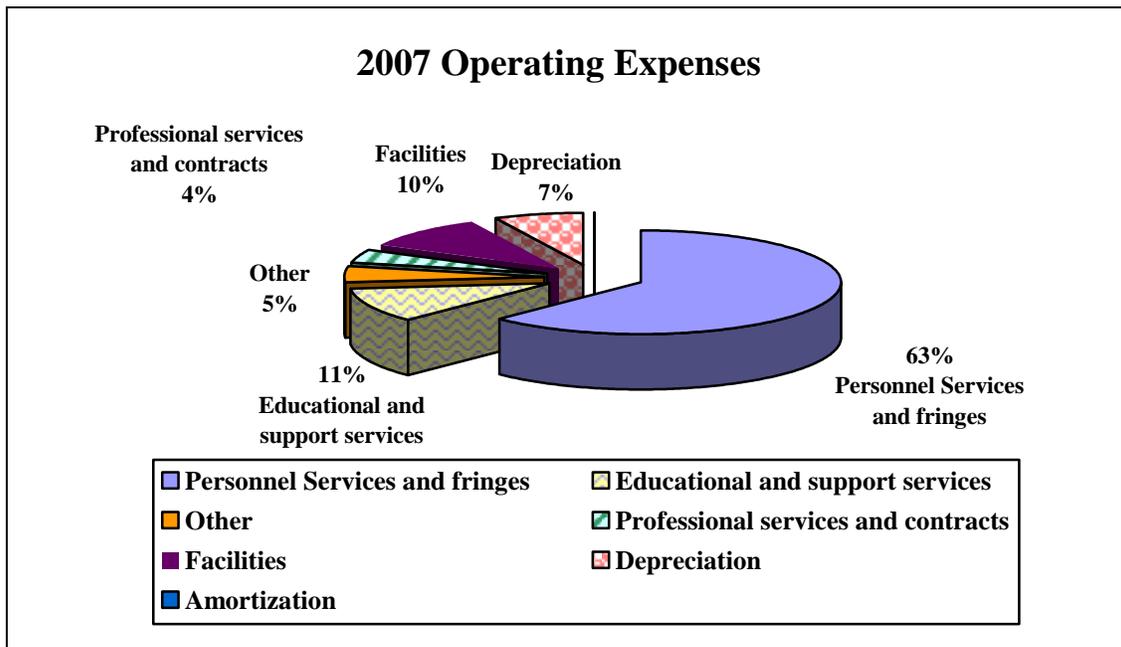
For the year ended June 30, 2006, total operating expenses less depreciation and amortization of \$496.9 million increased by \$32.0 million or 6.9% over the prior fiscal year. In 2006, the impact of collective

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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.

Note 13 to the financial statements details operating expenses by function. The pie chart below illustrates operating expenses by natural classification.



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**Statement of Cash Flows**

| <b>STATEMENT OF CASH FLOWS</b>            |                |                |                |                                 |                                 |
|---|----------------|----------------|----------------|---------------------------------|---------------------------------|
| <b>June 30, 2007, 2006 and 2005</b>       |                |                |                |                                 |                                 |
| <b>(\$ In millions)</b>                   |                |                |                |                                 |                                 |
|   |                |                |                | \$                              | %                               |
|   | 2007           | 2006           | 2005           | Increase<br>(Decrease)<br>06-07 | Increase<br>(Decrease)<br>06-07 |
| <b>Cash provided (used) by</b>            |                |                |                |                                 |                                 |
| Operating Activities                      | \$(196.9)      | \$(178.4)      | \$(164.7)      | \$(18.5)                        | (10.4)                          |
| Non-Capital Financing<br>Activities       | 228.4          | 214.6          | 199.9          | 13.8                            | 6.4                             |
| Capital & Related Financing<br>Activities | (55.5)         | (75.0)         | 33.3           | 19.5                            | 26.0                            |
| Investing Activities                      | 20.5           | 74.8           | (59.5)         | (54.3)                          | (72.6)                          |
| Net Increase (Decrease) in<br>Cash        | (3.5)          | 36.0           | 9.0            | (39.5)                          | (109.7)                         |
|   |                |                |                |                                 |                                 |
| <b>Cash, beginning of year</b>            | <b>214.8</b>   | <b>178.8</b>   | <b>169.8</b>   | <b>36.0</b>                     | <b>20.1</b>                     |
| <b>Cash, end of year</b>                  | <b>\$211.3</b> | <b>\$214.8</b> | <b>\$178.8</b> | <b>\$(3.5)</b>                  | <b>(1.6)</b>                    |

The System's net decrease in cash and cash equivalents at June 30, 2007 of \$39.5 million was primarily due to decreases in proceeds from sales of investments of \$55.7 million and repayments of capital debt and leases of \$66.9 million, offset by increases in cash flow from tuition and fees of \$15.4 million and a new bond issuance of \$62.4 million.

**Enrollment**

The following table indicates historical enrollment of undergraduate and graduate students for the 2002-2003 through 2006-2007 academic years. Also indicated is full-time equivalent student enrollment.

| Fall Headcount Enrollment and Annual Full Time Equivalent |               |             |          |             |        |             |                                   |             |
|---|---------------|-------------|----------|-------------|--------|-------------|-----------------------------------|-------------|
| Year<br>Ending<br>June 30                                 | Undergraduate | %<br>Change | Graduate | %<br>Change | TOTAL  | %<br>Change | Annual<br>Full Time<br>Equivalent | %<br>Change |
| 2007  | 28,503        | 2.1%        | 7,292    | (3.6%)      | 35,795 | 0.9%        | 26,547                            | 1.5%        |
| 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%        |

**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 2002 through 2006.

**Connecticut State University System  
Management's Discussion and Analysis (Unaudited)  
June 30, 2007 and 2006**

| Fall Semester First Year Student Admissions |                      |                  |                 |                  |                 |
|---|----------------------|------------------|-----------------|------------------|-----------------|
| Year Ending June 30                         | Number of Applicants | Percent Accepted | Number Accepted | Percent Enrolled | Number Enrolled |
| 2007  | 18,044               | 57.2%            | 10,321          | 43.9%            | 4,536           |
| 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           |

**Economic Outlook**

Operating revenues increased in fiscal year 2007 and are expected to increase in fiscal year 2008. 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 2007 semester continued this upward trend. In addition, the number of all new transfer students entering CSUS institutions grew by 6% from Fall 2001 to Fall 2007.

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 72.7% of the total revenues of the System in 2007. The System received \$226.0 million in State appropriations for operating activities in fiscal year 2007, and currently anticipates appropriations of \$240.8 million in fiscal year 2008. The State of Connecticut's fiscal condition continues to be fairly optimistic for the short term. The State ended the 2007 fiscal year with a surplus of \$269.6 million, and modest surpluses are currently projected for FY2008 and FY2009. However, the forecasts for the following three years are not as positive, with the State projecting deficits through FY2012. Economic indicators for Connecticut remain mixed. The leading and coincident employment indexes for Connecticut both show improvement from the prior year and the prior quarter; however, the trend of the leading general economic drift indicator is negative, and Connecticut's job growth is expected to slow markedly in the next year and flatten even further in 2009. It should be noted, however, that the indicators continue to fluctuate, and these prognostications may well be pessimistic.

Nationally, the latest indicators are not positive. The subprime mortgage crisis appears to be worsening, and the housing market is not expected to turn around anytime soon. The Federal Reserve recently lowered its economic growth forecast for 2008, citing weakness in housing.

If the economy should weaken as expected, this could negatively impact the amount of State appropriation available to CSUS for operating purposes in the future. At the same 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 22% from academic year 2001 to academic year 2008; it has been suggested by some that this growth will continue through 2012. In addition, CSUS is increasingly working with high schools to assist them in better preparing students for college; through these efforts, CSUS's enrollment is expected to continue to increase even beyond 2012.

In order to meet the coming challenges, CSUS increased tuition and required fees on average by 5.9% in fiscal year 2007. This was below the national average of 6.3% 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 \$7.9 million more in financial aid than was budgeted during the fiscal year. CSUS remains committed to its mission of access and affordability.

## **Connecticut State University System Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006**

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During fiscal year 2007, construction commenced on the comprehensive renovation of an existing residence hall at one university. In addition, construction was completed at the same university on a new student center and an 800-car parking garage during the year. Projects underway at other universities include the construction of a science building, additions and renovations to an existing student center, and ongoing construction of an addition to an existing library.

In fiscal year 2007, a Memorandum of Understanding was signed between the four institutions of the Connecticut State University System and the twelve institutions of the Connecticut Community College system, reflecting a strong commitment to dramatically improving the ease of transfer from Connecticut's community colleges to CSUS institutions. Subsequently, WCSU signed a dual admissions agreement with Norwalk Community College and Naugatuck Valley Community College, following through on the commitment of the CSUS-CCC Memorandum of Understanding. It is important to note as well that Eastern Connecticut State University has had matriculation agreements in place with four community colleges since 1997.

In the Fall of 2007, the Legislature passed and the Governor approved a historic \$1.03 billion, 11-year program to support the financing of acquisition, construction, reconstruction, improvement and equipping of the facilities, structures, and related systems at the four CSUS universities. This program provides additional flexibility in the allocation of bond funds, thus allowing for more timely completion of major university construction projects. Projects anticipated during the 11-year program include new Fine Arts Instructional Centers at three universities, the complete renovation and expansion of library facilities at the System's oldest university, and the construction or renovation of several academic and support facilities Systemwide.

CSUS's commitment to accessible and affordable learning opportunities is evident in the high levels of financial aid provided to its students. 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, 2007 and 2006**

|   | 2007                    | 2006                   |
|---|-------------------------|------------------------|
| <b>Assets</b>   |                         |                        |
| Current assets  |                         |                        |
| Cash and cash equivalents (Notes 2 and 12)                    | \$ 108,237,052          | \$ 93,818,349          |
| Investments (Note 2)  | 14,370,704              | 20,604,317             |
| Student receivables   | 111,919,608             | 109,593,575            |
| Allowance-doubtful student receivables                        | (5,085,776)             | (5,713,156)            |
| Student receivables, net (Note 3)                             | <u>106,833,832</u>      | <u>103,880,419</u>     |
| Student loans receivable (Notes 3 and 4)                      | 2,342,372               | 2,142,910              |
| Grants receivable, net (Note 3)                               | 1,699,929               | 2,090,970              |
| Miscellaneous receivables, net (Note 3)                       | 939,858                 | 868,726                |
| Due from the State of Connecticut (Notes 1 and 5)             | 52,777,206              | 54,177,467             |
| Prepaid expenses and other current assets                     | 883,905                 | 1,706,628              |
| Total current assets  | <u>288,084,858</u>      | <u>279,289,786</u>     |
| Noncurrent assets   |                         |                        |
| Cash and cash equivalents (Notes 2 and 12)                    | 102,989,745             | 120,932,579            |
| Investments (Note 2)  | 26,666,419              | 27,641,814             |
| Student loans receivable                                      | 10,753,717              | 10,507,069             |
| Allowance-doubtful loan receivables                           | (2,727,885)             | (2,649,786)            |
| Loans receivable, net (Notes 3 and 4)                         | <u>8,025,832</u>        | <u>7,857,283</u>       |
| Other assets  | 3,880,383               | 4,293,645              |
| Investment in plant   | 1,249,782,746           | 1,208,576,840          |
| Accumulated depreciation                                      | (405,003,390)           | (371,040,951)          |
| Investment in plant, net of accumulated depreciation (Note 6) | <u>844,779,356</u>      | <u>837,535,889</u>     |
| Total noncurrent assets                                       | <u>986,341,735</u>      | <u>998,261,210</u>     |
| Total assets  | <u>\$ 1,274,426,593</u> | <u>\$1,277,550,996</u> |

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

**Connecticut State University System**  
**Combined Statements of Net Assets**  
**June 30, 2007 and 2006**

**(Continued)**

|   | <b>2007</b>             | <b>2006</b>            |
|---|-------------------------|------------------------|
| <b>Liabilities</b>                              |                         |                        |
| Current liabilities                             |                         |                        |
| Accounts payable                                | \$ 8,971,717            | \$ 12,883,142          |
| Accrued salaries and benefits                   | 44,151,876              | 41,574,977             |
| Accrued compensated absences (Note 7)           | 1,589,657               | 1,479,399              |
| Due to the State of Connecticut                 | 2,343,630               | 2,300,270              |
| Deferred revenue (Note 9)                       | 122,210,164             | 117,906,076            |
| Bonds payable (Note 8)                          | 18,841,579              | 19,937,517             |
| Accrued bond interest payable                   | 2,258,626               | 2,365,634              |
| Capital lease obligation (Note 8)               | 59,749                  | 118,033                |
| Other liabilities                               | 6,051,960               | 7,591,392              |
| Depository accounts                             | 3,965,261               | 4,088,604              |
| Total current liabilities                       | <u>210,444,219</u>      | <u>210,245,044</u>     |
| Noncurrent liabilities                          |                         |                        |
| Accrued compensated absences (Note 7)           | 29,737,080              | 27,262,099             |
| Bonds payable (Note 8)                          | 316,256,145             | 336,963,452            |
| Federal loan program advances                   | 9,777,096               | 9,697,016              |
| Deferred compensation (Note 8)                  | 134,353                 | 84,309                 |
| Other liabilities - ERIP (Note 7)               | -                       | 2,227,440              |
| Capital lease obligation (Note 8)               | 24,856                  | 60,699                 |
| Total noncurrent liabilities                    | <u>355,929,530</u>      | <u>376,295,015</u>     |
| Total liabilities                               | <u>566,373,749</u>      | <u>586,540,059</u>     |
| <b>Net Assets</b>                               |                         |                        |
| Invested in capital assets, net of related debt | 618,919,529             | 616,345,870            |
| Restricted                                      |                         |                        |
| Nonexpendable                                   | 886,046                 | 483,100                |
| Expendable                                      | 27,382,861              | 28,467,111             |
| Unrestricted                                    | 60,864,408              | 45,714,856             |
| Total net assets                                | <u>708,052,844</u>      | <u>691,010,937</u>     |
| Total liabilities and net assets                | <u>\$ 1,274,426,593</u> | <u>\$1,277,550,996</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, 2007 and 2006**

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|  | <b>2007</b>          | <b>2006</b>          |
|--|----------------------|----------------------|
| <b>Assets</b>                                |                      |                      |
| Cash and cash equivalents (Note 2)           | \$ 6,677,457         | \$ 6,589,290         |
| Investments (Note 2)                         | 48,900,745           | 40,931,462           |
| Contributions and other receivables (Note 3) | 2,555,309            | 3,367,415            |
| Prepaid expenses and other assets            | 974,483              | 773,562              |
| Investment in plant, net (Note 6)            | 2,230,370            | 1,666,157            |
| Total assets                                 | <u>\$ 61,338,364</u> | <u>\$ 53,327,886</u> |
| <b>Liabilities</b>                           |                      |                      |
| Accounts payable                             | \$ 151,125           | \$ 87,074            |
| Custodial obligation payable                 | 175,705              | 179,863              |
| Other liabilities                            | 347,709              | 173,771              |
| Long-term debt (Note 8)                      | 48,658               | 62,033               |
|  | <u>723,197</u>       | <u>502,741</u>       |
| <b>Net assets</b>                            |                      |                      |
| Permanently restricted                       | 42,325,563           | 40,092,116           |
| Temporarily restricted                       | 16,528,073           | 11,465,006           |
| Unrestricted                                 | 1,761,531            | 1,268,023            |
| Total net assets                             | <u>60,615,167</u>    | <u>52,825,145</u>    |
| Total liabilities and net assets             | <u>\$ 61,338,364</u> | <u>\$ 53,327,886</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, 2007 and 2006**

|  | 2007                  | 2006                  |
|--|-----------------------|-----------------------|
| Operating revenues   |                       |                       |
| Tuition and fees   |                       |                       |
| Tuition and fees   | \$ 216,792,588        | \$ 204,699,080        |
| Less   |                       |                       |
| Scholarships allowance   | 16,163,542            | 15,318,163            |
| Waivers  | 10,140,047            | 10,287,736            |
| Tuition and fees, net of scholarship allowances and waivers              | <u>190,488,999</u>    | <u>179,093,181</u>    |
| Federal grants and contracts   | 29,947,475            | 29,529,963            |
| State and local grants and contracts                                     | 11,200,898            | 10,337,226            |
| Nongovernment grants and contracts                                       | 2,621,821             | 3,115,351             |
| Indirect cost recoveries   | 656,936               | 736,855               |
| Auxiliary revenues   | 74,633,002            | 67,882,585            |
| Other operating revenues   | 17,694,332            | 13,636,269            |
| Total operating revenues   | <u>327,243,463</u>    | <u>304,331,430</u>    |
| Operating expenses (Note 13)   |                       |                       |
| Personnel service and fringe benefits                                    | 356,486,132           | 336,095,932           |
| Professional services and fees   | 23,606,259            | 22,276,340            |
| Educational services and support   | 61,445,953            | 56,268,003            |
| Travel expenses  | 6,361,055             | 5,644,761             |
| Operation of facilities  | 59,196,689            | 54,569,659            |
| Other operating supplies and expenses                                    | 22,648,444            | 22,069,462            |
| Depreciation expense   | 40,819,057            | 38,821,513            |
| Amortization expense   | 443,239               | 281,022               |
| Total operating expenses   | <u>571,006,828</u>    | <u>536,026,692</u>    |
| Operating loss   | <u>(243,763,365)</u>  | <u>(231,695,262)</u>  |
| Nonoperating revenues  |                       |                       |
| State appropriations   | 226,046,841           | 212,900,046           |
| Gifts  | 640,343               | 708,372               |
| Investment income  | 13,610,233            | 12,504,148            |
| State financed plant facilities (Note 1)                                 | 7,169,213             | 68,077,006            |
| Other nonoperating revenues  | 2,486,113             | 2,354,668             |
| Net nonoperating revenues  | <u>249,952,743</u>    | <u>296,544,240</u>    |
| Increase in net assets before other revenues, expenses, gains and losses | 6,189,378             | 64,848,978            |
| State appropriations restricted for capital purposes                     | 10,852,529            | 17,001,414            |
| Net increase in net assets   | <u>17,041,907</u>     | <u>81,850,392</u>     |
| Net assets (Note 1)  |                       |                       |
| Net assets - beginning of year   | <u>691,010,937</u>    | <u>609,160,545</u>    |
| Net assets - end of year   | <u>\$ 708,052,844</u> | <u>\$ 691,010,937</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, 2007 and 2006**

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | 2007                 | 2006                 |
|--|---------------------|---------------------------|---------------------------|----------------------|----------------------|
| <b>Revenues, gains and other support</b> |                     |                           |                           |                      |                      |
| Contributions                            | \$ 928,673          | \$ 2,286,554              | \$ 1,736,287              | \$ 4,951,514         | \$ 8,697,107         |
| State grants                             | 486,075             | -                         | 707,279                   | 1,193,354            | 188,213              |
| Program income                           | 109,727             | 195,025                   | 44,345                    | 349,097              | 419,923              |
| Investment income                        | 132,711             | 2,387,180                 | 10,284                    | 2,530,175            | 1,455,904            |
| Gain on investments                      | 109,460             | 3,353,318                 | (150,176)                 | 3,312,602            | 1,119,468            |
| Other income                             | 218,403             | -                         | -                         | 218,403              | 170,915              |
| Net assets released from restrictions    | 3,012,139           | (3,012,139)               | -                         | -                    | -                    |
| Total revenues, gains and other support  | <u>4,997,188</u>    | <u>5,209,938</u>          | <u>2,348,019</u>          | <u>12,555,145</u>    | <u>12,051,530</u>    |
| <b>Operating expenses</b>                |                     |                           |                           |                      |                      |
| Scholarships and awards                  | 264,675             | -                         | 6,000                     | 270,675              | 909,719              |
| University support                       | 2,372,881           | -                         | -                         | 2,372,881            | 1,729,519            |
| Auxiliary services                       | 726,020             | -                         | -                         | 726,020              | 646,430              |
| Academic enrichment                      | 210,917             | -                         | -                         | 210,917              | 140,009              |
| Fundraising                              | 736,883             | -                         | -                         | 736,883              | 585,314              |
| Management and general                   | 344,709             | -                         | 103,038                   | 447,747              | 230,174              |
| Total operating expenses                 | <u>4,656,085</u>    | <u>-</u>                  | <u>109,038</u>            | <u>4,765,123</u>     | <u>4,241,165</u>     |
| Transfers between funds                  | 136,935             | (136,935)                 | -                         | -                    | -                    |
| Changes in net assets                    | <u>478,038</u>      | <u>5,073,003</u>          | <u>2,238,981</u>          | <u>7,790,022</u>     | <u>7,810,365</u>     |
| <b>Net assets</b>                        |                     |                           |                           |                      |                      |
| Beginning of year                        | 1,283,493           | 11,455,070                | 40,086,582                | 52,825,145           | 45,014,780           |
| End of year                              | <u>\$ 1,761,531</u> | <u>\$ 16,528,073</u>      | <u>\$ 42,325,563</u>      | <u>\$ 60,615,167</u> | <u>\$ 52,825,145</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, 2007 and 2006**

|   | 2007                  | 2006                  |
|---|-----------------------|-----------------------|
| <b>Cash flows from operating activities</b>                     |                       |                       |
| Tuition and fees  | \$ 176,871,134        | \$ 161,517,681        |
| Grants and contracts  | 44,499,438            | 42,272,739            |
| Auxiliary revenues  | 73,863,138            | 68,046,518            |
| Other operating revenues  | 4,721,394             | 17,549,038            |
| Payments to employees for salaries and benefits                 | (353,667,807)         | (328,793,985)         |
| Payments to suppliers   | (8,596,510)           | (4,751,399)           |
| Professional services and fees                                  | (23,646,592)          | (21,637,207)          |
| Educational services and support                                | (61,206,333)          | (55,153,583)          |
| Travel expenses   | (6,323,679)           | (5,485,191)           |
| Operation of facilities   | (43,939,721)          | (59,131,471)          |
| Other operating supplies and expenses                           | (20,715,745)          | (12,353,483)          |
| University fee receipts   | 20,598,109            | 19,474,383            |
| Net cash used in operating activities                           | <u>(197,543,174)</u>  | <u>(178,445,960)</u>  |
| <b>Cash flows from noncapital financing activities</b>          |                       |                       |
| State appropriations  | 224,980,993           | 209,513,508           |
| Gifts for other than capital purposes                           | 601,022               | 708,371               |
| Nonoperating revenue other                                      | 2,769,886             | 4,340,384             |
| Net cash provided by noncapital financing activities            | <u>228,351,901</u>    | <u>214,562,263</u>    |
| <b>Cash flows from investing activities</b>                     |                       |                       |
| Proceeds from sales of investments                              | 7,209,008             | 62,889,078            |
| Interest and dividends received on investments                  | 13,263,490            | 11,879,321            |
| Net cash provided by investing activities                       | <u>20,472,498</u>     | <u>74,768,399</u>     |
| <b>Cash flows from capital and related financing activities</b> |                       |                       |
| Cash paid for capital assets                                    | (46,924,154)          | (79,065,389)          |
| Capital appropriations received                                 | 13,589,476            | 20,415,347            |
| Proceeds of new bond issuance                                   | 62,416,041            | -                     |
| Repayments of capital debt and leases                           | (83,205,977)          | (16,294,339)          |
| Capital grants and gifts received                               | 36,376                | -                     |
| Payment on bond issuance costs                                  | (717,118)             | -                     |
| Net cash used in capital and related financing activities       | <u>(54,805,356)</u>   | <u>(74,944,381)</u>   |
| Net increase (decrease) in cash and cash equivalents            | (3,524,131)           | 35,940,321            |
| Cash and cash equivalents, beginning of year                    | 214,750,928           | 178,810,607           |
| Cash and cash equivalents, end of year                          | <u>\$ 211,226,797</u> | <u>\$ 214,750,928</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, 2007 and 2006**

|   | 2007                    | 2006                    |
|---|-------------------------|-------------------------|
| <b>Reconciliation of operating loss to net cash used in operating activities</b>            |                         |                         |
| Operating loss  | \$ (243,763,365)        | \$ (231,695,262)        |
| Adjustments to reconcile operating loss to net cash used in operating activities            |                         |                         |
| Depreciation expense  | 40,819,057              | 38,821,513              |
| Bad debt write-offs   | 754,028                 | (34,352)                |
| Amortization  | 443,239                 | 281,022                 |
| Changes in assets and liabilities:  |                         |                         |
| Receivables   | (3,439,572)             | (2,264,215)             |
| Prepaid expenses and other  | (1,536,059)             | 1,281,706               |
| Accounts payable  | 1,720,964               | 2,651,131               |
| Accrued salaries  | 2,576,899               | 8,146,489               |
| Other liabilities   | (1,870,744)             | (607,905)               |
| Due to the State of Connecticut   | 43,360                  | 280,705                 |
| Deferred revenues   | 4,304,088               | 5,248,295               |
| Deferred compensation   | 50,043                  | (16,656)                |
| Deposit accounts  | (123,343)               | 85,523                  |
| Accrued bond interest payable   | (107,008)               | 452,818                 |
| Accrued compensated absences  | 2,585,239               | (1,076,772)             |
| Net cash used in operating activities   | <u>\$ (197,543,174)</u> | <u>\$ (178,445,960)</u> |
| <b>Noncash financing activity</b>   |                         |                         |
| Fixed assets acquired by incurring capital lease obligations                                | \$ 29,125               | \$ 5,317                |
| Fixed assets included in accounts payable   | \$ 1,159,973            | \$ 6,299,867            |
| <b>Reconciliation of cash and cash equivalents to the combined statements of net assets</b> |                         |                         |
| Cash and cash equivalents classified as current assets                                      | \$ 108,237,052          | \$ 93,818,349           |
| Cash and cash equivalents classified as noncurrent assets                                   | <u>102,989,745</u>      | <u>120,932,579</u>      |
|   | <u>\$ 211,226,797</u>   | <u>\$ 214,750,928</u>   |

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

# Connecticut State University System

## Notes to Combined Financial Statements

### June 30, 2007 and 2006

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#### 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, 2007 and 2006

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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.

In accordance with GASB Statement No. 39 "*Determining Whether Certain Organizations Are Component Units*", several legally separate, tax-exempt, affiliated university foundations (the "Foundations") must be considered component units of CSUS and are presented discretely in CSUS's financial statements. The Foundations act primarily as fund-raising organizations 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 is 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 CSUS.

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 \$1.0 million and \$.8 million at June 30, 2007 and 2006, respectively, have not been included as component units of the Universities.

Certain amounts in the June 30, 2007 financial statements have been reclassified for comparative purposes.

# Connecticut State University System

## Notes to Combined Financial Statements

### June 30, 2007 and 2006

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#### 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, 2007 and 2006. 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, 2007 and 2006. 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, 2007 and 2006. Long-term cash and cash equivalents and investments include balances with a maturity of greater than one year from June 30, 2007 and 2006 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, 2007 and 2006. Long-term liabilities include balances that are expected to be paid after one year from June 30, 2007 and 2006.

#### 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, 2007 and 2006.

# Connecticut State University System

## Notes to Combined Financial Statements

### June 30, 2007 and 2006

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#### **Cash, Cash Equivalents and Investments**

Cash and cash equivalents consist of petty cash, checking accounts and a Short-Term Investment Fund ("STIF"), see Note 2. Cash equivalents are investments which have maturities when purchased of three months or less.

Long-term investments 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. Investments classified as short-term 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. Interest and investment income are recognized on the accrual basis.

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 statement of net assets.

#### **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 \$620,794 and \$749,137 at June 30, 2007 and 2006, 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 statement of net assets.

#### **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 related 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 |
| Furniture, 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 \$7.2 million and \$68.1 million for the years ended June 30, 2007 and 2006, 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, 2007 and 2006

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#### **Deferred Bond 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, 2007 and 2006 were \$270,005 and \$277,697, respectively.

#### **Interest Capitalization**

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on related debt proceeds. CSUS incurred net interest expense of \$11.2 million and \$9.0 million for the fiscal years ended June 30, 2007 and 2006, respectively. Interest capitalized for the fiscal years ended June 30, 2007 and 2006, totaled \$ 1.3 million and \$5.7 million, respectively. The capitalized interest is being amortized over 35 years.

#### **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 General Fund totaled \$27.4 million and \$25.9 million as of June 30, 2007 and 2006, respectively. CSUS has reflected a related receivable from the State of Connecticut for these costs which will be charged to the General Fund appropriation for the following year, in accordance with the state budget approved prior to June 30, 2007 and 2006, respectively.

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, 2007 and 2006, but applicable to the 2007 or 2006 summer sessions held subsequent to June 30 or upcoming 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, 2007 and 2006 and revenues and expenses recognized during the reporting period. Major estimates,

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

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

**2. Cash, Cash Equivalents and Investments**

Cash and cash equivalents includes approximately \$70.7 million and \$97.2 million at June 30, 2007 and 2006, 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. . 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.

Cash and cash equivalents also include operating funds held by the State of Connecticut in a pooled, interest credit program which earns interest at a rate determined monthly by the Office of the State Treasurer. The interest rates at June 30, 2007 and 2006 were 5.49% and 5.12% , respectively. CSUS operating funds held by the State that participated in the aforementioned program were \$136.9 million and \$108.8 million at June 30, 2007 and 2006, respectively.

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

|                             | 2007                  |                       | 2006                  |                       |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                             | Cost                  | Fair value            | Cost                  | Fair value            |
| Cash and cash equivalents   | \$ 211,226,797        | \$ 211,226,797        | \$ 214,750,928        | \$ 214,750,928        |
| U.S. Government obligations | 18,810,795            | 18,820,943            | 25,670,006            | 25,670,656            |
| Mortgage-backed securities  | 22,216,180            | 22,216,180            | 22,575,475            | 22,575,475            |
|                             | <u>\$ 252,253,772</u> | <u>\$ 252,263,920</u> | <u>\$ 262,996,409</u> | <u>\$ 262,997,059</u> |

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

|                           | 2007                 |                      | 2006                 |                      |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
|                           | Cost                 | Fair value           | Cost                 | Fair value           |
| Cash and cash equivalents | \$ 6,677,457         | \$ 6,677,457         | \$ 6,589,290         | \$ 6,589,290         |
| Investments               | 44,188,118           | 48,900,745           | 40,827,846           | 40,931,462           |
|                           | <u>\$ 50,865,575</u> | <u>\$ 55,578,202</u> | <u>\$ 47,417,136</u> | <u>\$ 47,520,752</u> |

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

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

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 and disclosures are as follows:

*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 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, 2006.

*Custodial Credit Risk* – At June 30, 2007 and 2006, the carrying amount of CSUS’s bank deposits was \$.7 million and \$2.7 million, respectively, as compared to bank balances of \$2.4 million and \$4.9 million, respectively. The differences between the carrying amount and bank balances were primarily caused by deposits in transit and outstanding checks. Of such bank balances, \$.2 million and \$.4 million at June 30, 2007 and June 30, 2006 are covered by federal deposit insurance. The remaining balances of \$2.2 million at June 30, 2007 and \$4.5 million at June 30, 2006, respectively, are uninsured and uncollateralized and therefore subject to custodial credit risk

*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. 83% of CSUS total cash, cash equivalents and investments is invested in the STIF and the State’s pooled, interest credit program accounts as of June 30, 2007.

*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, 2007 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 | \$ 18,820,943                    | \$ 18,820,943        | \$ -            | \$ -                | \$ -                 |
| Mortgage-backed securities  | 22,216,180                       | -                    | 3,000           | 6,220,206           | 15,992,974           |
|                             | <u>\$ 41,037,123</u>             | <u>\$ 18,820,943</u> | <u>\$ 3,000</u> | <u>\$ 6,220,206</u> | <u>\$ 15,992,974</u> |

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

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**3. Receivables**

Accounts receivable consisted of the following at June 30:

|                                      | <b>2007</b>           | <b>2006</b>           |
|--------------------------------------|-----------------------|-----------------------|
| Student accounts receivable          | \$ 111,919,608        | \$ 109,593,575        |
| Student loans receivable             | 13,096,089            | 12,649,979            |
| Grants receivable                    | 1,970,869             | 2,090,970             |
| Miscellaneous receivables            | 939,858               | 868,726               |
|                                      | <u>127,926,424</u>    | <u>125,203,250</u>    |
| Less allowance for doubtful accounts | (8,084,601)           | (8,362,942)           |
| Net accounts receivable              | <u>\$ 119,841,823</u> | <u>\$ 116,840,308</u> |

Student accounts receivable above include \$100,315,953 and \$97,293,329 representing amounts included in deferred revenue at those dates.

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

|   | <b>2007</b>         | <b>2006</b>         |
|---|---------------------|---------------------|
| Contributions and other receivables       | \$ 2,547,670        | \$ 3,367,415        |
| State matching contribution               | 7,639               | -                   |
| Total contributions and other receivables | <u>\$ 2,555,309</u> | <u>\$ 3,367,415</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, 2007 and 2006. 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, 2007 and 2006, the allowance for uncollectible loans was \$2,727,885 and \$2,649,786, respectively.

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

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**5. Due from the State of Connecticut**

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

|  | <b>2007</b>          | <b>2006</b>          |
|--|----------------------|----------------------|
| Receivable for accrued salaries, interest and fringe benefits<br>to be paid by State of Connecticut General Fund | \$ 29,582,998        | \$ 27,345,536        |
| State appropriations for capital projects  | <u>23,194,208</u>    | <u>26,831,931</u>    |
|  | <u>\$ 52,777,206</u> | <u>\$ 54,177,467</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).

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

**6. Investment in Plant**

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

|  | Balance<br>June 30, 2006 | Year ended June 30, 2007 |                              | Balance<br>June 30, 2007 |
|--|--------------------------|--------------------------|------------------------------|--------------------------|
|  |                          | Additions                | Retirements<br>and Transfers |                          |
| <b>Capital assets not being depreciated:</b> |                          |                          |                              |                          |
| Land   | \$ 18,461,690            | \$ 99,728                | \$ -                         | \$ 18,561,418            |
| Capitalized collections and library books    | 54,010,416               | 4,832,850                | (2,227,439)                  | 56,615,827               |
| Construction in progress                     | 44,817,891               | 25,061,722               | (36,188,893)                 | 33,690,720               |
| Total capital assets not being depreciated   | <u>\$ 117,289,997</u>    | <u>\$ 29,994,300</u>     | <u>\$ (38,416,332)</u>       | <u>\$ 108,867,965</u>    |
| <b>Other capital assets:</b>                 |                          |                          |                              |                          |
| Land improvements                            | \$ 70,381,934            | \$ 1,386,234             | \$ (107,687)                 | \$ 71,660,481            |
| Buildings and building improvements          | 910,663,737              | 43,519,323               | (1,010,696)                  | 953,172,364              |
| Furniture, fixtures and equipment            | 110,241,172              | 12,767,117               | (6,926,353)                  | 116,081,936              |
| Total other capital assets                   | <u>1,091,286,843</u>     | <u>57,672,674</u>        | <u>(8,044,736)</u>           | <u>1,140,914,781</u>     |
| Less accumulated depreciation for:           |                          |                          |                              |                          |
| Land improvements                            | (24,219,947)             | (3,517,783)              | 7,264                        | (27,730,466)             |
| Buildings and building improvements          | (282,151,128)            | (26,747,525)             | 218,535                      | (308,680,118)            |
| Furniture, fixtures and equipment            | (64,669,876)             | (10,553,749)             | 6,630,819                    | (68,592,806)             |
| Total accumulated depreciation               | <u>(371,040,951)</u>     | <u>(40,819,057)</u>      | <u>6,856,618</u>             | <u>(405,003,390)</u>     |
| Other capital assets, net                    | <u>\$ 720,245,892</u>    | <u>\$ 16,853,617</u>     | <u>\$ (1,188,118)</u>        | <u>\$ 735,911,391</u>    |
| <b>Capital asset summary:</b>                |                          |                          |                              |                          |
| Capital assets not being depreciated         | \$ 117,289,997           | \$ 29,994,300            | \$ (38,416,332)              | \$ 108,867,965           |
| Other capital assets, at cost                | 1,091,286,843            | 57,672,674               | (8,044,736)                  | 1,140,914,781            |
| Total cost of capital assets                 | 1,208,576,840            | 87,666,974               | (46,461,068)                 | 1,249,782,746            |
| Less accumulated depreciation                | <u>(371,040,951)</u>     | <u>(40,819,057)</u>      | <u>6,856,618</u>             | <u>(405,003,390)</u>     |
| Capital assets, net                          | <u>\$ 837,535,889</u>    | <u>\$ 46,847,917</u>     | <u>\$ (39,604,450)</u>       | <u>\$ 844,779,356</u>    |
| <b>Component Units</b>                       |                          |                          |                              |                          |
| Total cost of capital assets                 | \$ 1,910,168             | \$ 629,764               | \$ -                         | \$ 2,539,932             |
| Less accumulated depreciation                | (244,011)                | (65,551)                 | -                            | (309,562)                |
| Capital assets, net                          | <u>\$ 1,666,157</u>      | <u>\$ 564,213</u>        | <u>\$ -</u>                  | <u>\$ 2,230,370</u>      |

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

|   | Year ended June 30, 2006 |                       |                              | Balance<br>June 30, 2006 |
|---|--------------------------|-----------------------|------------------------------|--------------------------|
|   | Balance<br>June 30, 2005 | Additions             | Retirements<br>and Transfers |                          |
| <b>Capital assets not being depreciated:</b>      |                          |                       |                              |                          |
| 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               |
| <b>Total capital assets not being depreciated</b> | <b>\$ 166,881,045</b>    | <b>\$ 55,496,485</b>  | <b>\$ (105,087,533)</b>      | <b>\$ 117,289,997</b>    |
| <b>Other capital assets:</b>                      |                          |                       |                              |                          |
| 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              |
| <b>Total other capital assets</b>                 | <b>899,128,510</b>       | <b>200,192,930</b>    | <b>(8,034,597)</b>           | <b>1,091,286,843</b>     |
| 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)             |
| <b>Total accumulated depreciation</b>             | <b>(339,436,431)</b>     | <b>(38,821,513)</b>   | <b>7,216,993</b>             | <b>(371,040,951)</b>     |
| <b>Other capital assets, net</b>                  | <b>\$ 559,692,079</b>    | <b>\$ 161,371,417</b> | <b>\$ (817,604)</b>          | <b>\$ 720,245,892</b>    |
| <b>Capital asset summary:</b>                     |                          |                       |                              |                          |
| 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            |
| <b>Total cost of capital assets</b>               | <b>1,066,009,555</b>     | <b>255,689,415</b>    | <b>(113,122,130)</b>         | <b>1,208,576,840</b>     |
| <b>Less accumulated depreciation</b>              | <b>(339,436,431)</b>     | <b>(38,821,513)</b>   | <b>7,216,993</b>             | <b>(371,040,951)</b>     |
| <b>Capital assets, net</b>                        | <b>\$ 726,573,124</b>    | <b>\$ 216,867,902</b> | <b>\$ (105,905,137)</b>      | <b>\$ 837,535,889</b>    |
| <b>Component Units</b>                            |                          |                       |                              |                          |
| Total cost of capital assets                      | \$ 1,850,171             | \$ 59,997             | \$ -                         | \$ 1,910,168             |
| Less accumulated depreciation                     | (198,866)                | (45,145)              | -                            | (244,011)                |
| <b>Capital assets, net</b>                        | <b>\$ 1,651,305</b>      | <b>\$ 14,852</b>      | <b>\$ -</b>                  | <b>\$ 1,666,157</b>      |

**7. Accrued Compensated Absences**

Accrued compensated absences as of June 30, include:

|                               | 2007                 | 2006                 |
|-------------------------------|----------------------|----------------------|
| Accrued vacation              | \$ 19,604,848        | \$ 17,831,816        |
| Accrued sick leave            | 5,639,163            | 5,252,590            |
| Other accrued fringe benefits | 6,082,726            | 5,657,092            |
|                               | <u>31,326,737</u>    | <u>28,741,498</u>    |
| Less: current portion         | 1,589,657            | 1,479,399            |
| <b>Noncurrent portion</b>     | <b>\$ 29,737,080</b> | <b>\$ 27,262,099</b> |

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

|                                    |                      |
|------------------------------------|----------------------|
| <b>Balance as of June 30, 2005</b> | \$ 29,076,706        |
| Additions in 2006                  | 1,045,533            |
| Retirements in 2006                | <u>(1,380,741)</u>   |
| <b>Balance as of June 30, 2006</b> | 28,741,498           |
| Additions in 2007                  | 4,089,345            |
| Retirements in 2007                | <u>(1,504,106)</u>   |
| <b>Balance as of June 30, 2007</b> | <u>\$ 31,326,737</u> |

These accruals represent estimated amounts earned by all eligible employees through June 30, 2007 and 2006. 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, 2007 and 2006 is approximately \$2.5 million and \$4.3 million, respectively. The current portion of the liability at June 30, 2007 and 2006 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:

| <b>Issue Date</b> | <b>Type</b>     | <b>2007</b>          | <b>2006</b>          |
|-------------------|-----------------|----------------------|----------------------|
| March 1993        | Original        | \$ 2,330,000         | \$ 2,800,000         |
| October 1993      | Refund          | 1,484,496            | 1,484,496            |
| March 1994        | Original        | 755                  | 755                  |
| August 1994       | Original        | 211                  | 211                  |
| March 1997        | Original        | 425,000              | 850,000              |
| September 1997    | Refund          | 1,890,824            | 1,901,561            |
| February 1998     | Refund          | 5,270,631            | 5,668,373            |
| December 1999     | Cash defeasance | -                    | 1,536,241            |
| June 2001         | Refund          | 6,950,267            | 7,764,858            |
| November 2001     | Refund          | 2,974,547            | 4,468,871            |
| June 2002         | Refund          | 1,270,682            | 1,270,682            |
| August 2002       | Refund          | 776,355              | 776,355              |
| April 2003        | Refund          | -                    | 2,213                |
| December 2003     | Refund          | 4,632,420            | 4,658,821            |
| April 2004        | Refund          | -                    | 441,634              |
| April 2005        | Refund          | 422,547              | 422,547              |
|                   |                 | <u>\$ 28,428,735</u> | <u>\$ 34,047,618</u> |

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

| <b>Year</b> | <b>Principal</b>     | <b>Interest</b>     |
|-------------|----------------------|---------------------|
| 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        | 3,649,455            | 521,301             |
| 2013-2017   | 6,465,915            | 711,076             |
|             | <u>\$ 28,428,735</u> | <u>\$ 5,637,521</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.

On April 18, 2007, CHEFA issue \$62.8 million of Series I Revenue Bonds on behalf of CSUS, to advance refund portions of Series D, E and G. The Bonds mature from 2008 to 2033 with interest rates varying from three percent (3.0%) to five and one quarter percent (5.25%). 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 2007 advance refunding of portions of Series D, E and G, 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 \$63.8 million at June 30, 2007. The outstanding amount of the refunded bonds totaled approximately \$60.1 million at June 30, 2007. The refunding of the bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2.4 million. The difference, which is recorded as a reduction of bonds payable, 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 \$4.6 million and achieve an economic gain, (the difference

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between the present value of the old and new debt service payments), of approximately \$2.4 million.

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. Assets held in the trust accounts had an aggregate market value of approximately \$52.8 million at June 30, 2005. The refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets. The outstanding amount of the refunded bonds totaled approximately \$49.3 million at June 30, 2007 and 2006. 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, which is recorded as a reduction of bonds payable, is being charged to operations over the life of new bonds using the straight-line method. As a result of the defeasance, CSUS has reduced its aggregate debt service payments by approximately \$2.7 million and achieved 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. Assets held in the trust accounts had an aggregate market value of approximately \$53.9 million at June 30, 2004. The refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets. The outstanding amount of the refunded bonds totaled approximately \$26.5 million at June 30, 2007 and 2006. 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, which is recorded as a reduction of bonds payable, is being charged to operations over the life of new bonds using the straight-line method. As a result of the defeasance, CSUS has reduced its aggregate debt service payments by approximately \$3.2 million and achieved 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:

|                              | <b>2007</b>           | <b>2006</b>           |
|------------------------------|-----------------------|-----------------------|
| CHEFA Revenue Bonds Series B | \$ 3,725,000          | \$ 5,590,000          |
| CHEFA Revenue Bonds Series C | 3,480,000             | 4,640,000             |
| CHEFA Revenue Bonds Series D | 19,220,000            | 34,590,000            |
| CHEFA Revenue Bonds Series E | 81,130,000            | 123,750,000           |
| CHEFA Revenue Bonds Series F | 45,940,000            | 48,435,000            |
| CHEFA Revenue Bonds Series G | 40,155,000            | 50,595,000            |
| CHEFA Revenue Bonds Series H | 48,360,000            | 48,370,000            |
| CHEFA Revenue Bonds Series I | 62,760,000            | -                     |
|                              | <u>\$ 304,770,000</u> | <u>\$ 315,970,000</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.

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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:

| <b>Maturity</b> | <b>Principal</b>      | <b>Interest</b>       |
|-----------------|-----------------------|-----------------------|
| 2008            | \$ 13,885,000         | \$ 12,925,736         |
| 2009            | 14,085,000            | 12,303,156            |
| 2010            | 14,180,000            | 11,737,869            |
| 2011            | 14,320,000            | 11,164,294            |
| 2012            | 14,405,000            | 10,569,869            |
| 2013-2017       | 72,060,000            | 42,995,491            |
| 2018-2022       | 61,135,000            | 27,476,831            |
| 2023-2027       | 44,415,000            | 15,300,081            |
| 2028-2032       | 37,105,000            | 7,235,006             |
| 2033-2036       | 19,180,000            | 787,550               |
|                 | <u>\$ 304,770,000</u> | <u>\$ 152,495,883</u> |

Long-term liability activity for the years ended June 30, 2007 and 2006 was as follows:

|  | <b>Year Ended June 30, 2007</b>      |                      |                        |                                      |
|--|--------------------------------------|----------------------|------------------------|--------------------------------------|
|  | <b>Balance<br/>June 30,<br/>2006</b> | <b>Additions</b>     | <b>Retirements</b>     | <b>Balance<br/>June 30,<br/>2007</b> |
| Bonds payable  | \$ 350,017,618                       | \$ 62,760,000        | \$ (79,578,883)        | \$ 333,198,735                       |
| Premium on bonds payable, net of<br>original issue discount and deferred<br>loss on bond refunding | 6,883,351                            | (2,774,784)          | (2,209,578)            | 1,898,989                            |
| Total bonds payable  | 356,900,969                          | 59,985,216           | (81,788,461)           | 335,097,724                          |
| Capital lease obligations  | 178,732                              | 29,126               | (123,253)              | 84,605                               |
| Deferred compensation  | 84,309                               | 50,044               | -                      | 134,353                              |
| Total  | <u>\$ 357,164,010</u>                | <u>\$ 60,064,386</u> | <u>\$ (81,911,714)</u> | <u>\$ 335,316,682</u>                |

|  | <b>Year Ended June 30, 2006</b>      |                  |                        |                                      |
|--|--------------------------------------|------------------|------------------------|--------------------------------------|
|  | <b>Balance<br/>June 30,<br/>2005</b> | <b>Additions</b> | <b>Retirements</b>     | <b>Balance<br/>June 30,<br/>2006</b> |
| Bonds payable  | \$ 366,311,957                       | \$ -             | \$ (16,294,339)        | \$ 350,017,618                       |
| Premium on bonds payable, net of<br>original issue discount and deferred<br>loss on bond refunding | 7,358,522                            | -                | (475,171)              | 6,883,351                            |
| Total bonds payable  | 373,670,479                          | -                | (16,769,510)           | 356,900,969                          |
| Capital lease obligations  | 273,977                              | 54,883           | (150,128)              | 178,732                              |
| Deferred compensation  | 100,965                              | 45,014           | (61,670)               | 84,309                               |
| Total  | <u>\$ 374,045,421</u>                | <u>\$ 99,897</u> | <u>\$ (16,981,308)</u> | <u>\$ 357,164,010</u>                |

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Principal payments for the Component Units are due as follows:

| <b>Year</b> | <b>Principal</b> |
|-------------|------------------|
| 2008        | \$ 3,396         |
| 2009        | 3,606            |
| 2010        | 3,828            |
| 2011        | 4,063            |
| 2012        | 4,314            |
| Thereafter  | 29,451           |
|             | <u>\$ 48,658</u> |

Notes payable activity for the years ended June 30, 2007 and 2006 was as follows:

|               | <b>Year Ended June 30, 2007</b>      |                  |                    |                                      |
|---------------|--------------------------------------|------------------|--------------------|--------------------------------------|
|               | <b>Balance<br/>June 30,<br/>2006</b> | <b>Additions</b> | <b>Retirements</b> | <b>Balance<br/>June 30,<br/>2007</b> |
| Notes payable | \$ 62,033                            | \$ -             | \$ (13,375)        | \$ 48,658                            |

|               | <b>Year Ended June 30, 2006</b>      |                  |                    |                                      |
|---------------|--------------------------------------|------------------|--------------------|--------------------------------------|
|               | <b>Balance<br/>June 30,<br/>2005</b> | <b>Additions</b> | <b>Retirements</b> | <b>Balance<br/>June 30,<br/>2006</b> |
| Notes payable | \$ 78,522                            | \$ -             | \$ (16,489)        | \$ 62,033                            |

**9. Deferred Revenue**

Deferred revenue consists of the following at June 30, 2007 and 2006:

|                           | <b>2007</b>           | <b>2006</b>           |
|---------------------------|-----------------------|-----------------------|
| Unearned tuition and fees | \$ 118,858,104        | \$ 114,854,225        |
| Grants and contracts      | 2,325,175             | 1,836,170             |
| Other                     | 1,026,885             | 1,215,681             |
|                           | <u>\$ 122,210,164</u> | <u>\$ 117,906,076</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, 2007, approximately twenty-six percent (26%) 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 regular and Hazardous Duty members are required to contribute 2% and 4% 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. Tier IIA Plan regular and Hazardous Duty members are required to contribute 2% and 5 % of their annual salaries, respectively. 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 2007 is not available as of the issue date of CSUS's financial statements and, therefore, the following information is as of June 30, 2006.

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The State's annual pension cost and net pension obligation for SERS as of June 30, 2006 are as follows (in thousands):

|  |                     |
|--|---------------------|
| Annual required contribution               | \$ 623,063          |
| Interest on net pension obligation         | 187,751             |
| Adjustment to annual required contribution | <u>(125,341)</u>    |
| Annual pension cost                        | 685,473             |
| Contributions made                         | <u>623,063</u>      |
| Increase in net pension obligation         | 62,410              |
| Net pension obligation, beginning of year  | <u>2,208,839</u>    |
| Net pension obligation, end of year        | <u>\$ 2,271,249</u> |

Three year trend information (in thousands):

| <b>Fiscal year</b> | <b>Annual pension cost (APC)</b> | <b>Percentage of APC contributed</b> | <b>Net pension obligation</b> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 2004               | \$ 534,191                       | 88.0 %                               | \$ 2,145,521                  |
| 2005               | 582,082                          | 89.1 %                               | 2,208,839                     |
| 2006               | 685,473                          | 90.9 %                               | 2,271,249                     |

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, 2006                |
| Actuarial cost method                                 | Projected unit credit        |
| Amortization method                                   | Level percent of pay, closed |
| Remaining amortization period                         | 26 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%                |

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Required Supplementary Information (in millions):

| Actuarial valuation date | (a)<br>Actuarial value of assets | (b)<br>Actuarial accrued liability (AAL) | (b-a)<br>Unfunded AAL (UAAL) | (a/b)<br>Funded ratio | (c)<br>Covered payroll | (b-a)/c<br>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                  | 8,517.7                          | 15,987.5                                 | 7,469.8                      | 53.3%                 | 2,980.1                | 250.7%   |
| 6/30/06                  | 8,951.4                          | 16,830.3                                 | 7,878.9                      | 53.2%                 | 3,107.9                | 253.5%   |

\* 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, 2007 and 2006. These commitments are not recorded as liabilities until materials or services are received. The commitments of total net asset balances at June 30, 2007 and 2006 were as follows:

|                                       | 2007                 | 2006                 |
|---------------------------------------|----------------------|----------------------|
| System Office                         | \$ 1,012,995         | \$ 3,018,946         |
| Central Connecticut State University  | 3,799,649            | 6,223,355            |
| Eastern Connecticut State University  | 487,312              | 1,758,201            |
| Southern Connecticut State University | 8,582,803            | 2,391,632            |
| Western Connecticut State University  | 2,465,310            | 2,754,141            |
|                                       | <u>\$ 16,348,069</u> | <u>\$ 16,146,275</u> |

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**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:

|  | <b>2007</b>           | <b>2006</b>           |
|--|-----------------------|-----------------------|
| Cash balances held with the State of Connecticut on behalf of the universities | \$ 137,483,983        | \$ 109,735,652        |
| Amounts invested in the State of Connecticut Short-Term Investment Fund (STIF) | <u>70,676,074</u>     | <u>97,168,534</u>     |
|  | <u>\$ 208,160,057</u> | <u>\$ 206,904,186</u> |

**Connecticut State University System**  
**Notes to Combined Financial Statements**  
**June 30, 2007 and 2006**

**13. Natural Classification with Functional Classification**

The operating expenses by functional classification were as follows:

| Year ended June 30, 2007           |   |                                     |                                       |                     |                            |   |                         |                         |                       |
|------------------------------------|---|-------------------------------------|---------------------------------------|---------------------|----------------------------|---|-------------------------|-------------------------|-----------------------|
| Natural Classification             |   |                                     |                                       |                     |                            |   |                         |                         |                       |
|                                    | Personnel<br>service and<br>fringe benefits | Professional<br>service and<br>fees | Educational<br>service and<br>support | Travel<br>expense   | Operation of<br>facilities | Other operating<br>supplies and<br>expenses | Depreciation<br>expense | Amortization<br>expense | Total                 |
| Academic support                   | \$ 36,764,530                               | \$ 783,331                          | \$ 1,981,081                          | \$ 1,385,790        | \$ 383,308                 | \$ 2,265,209                                | \$                      | \$                      | \$ 43,563,249         |
| Auxiliary enterprises              | 11,323,094                                  | 7,528,030                           | 15,128,989                            | 123,678             | 9,200,724                  | 3,316,902                                   | \$                      | \$                      | 46,621,417            |
| Institution support                | 62,743,044                                  | 7,619,513                           | 692,925                               | 851,126             | 3,413,243                  | 8,267,738                                   | \$                      | \$                      | 83,587,589            |
| Instruction                        | 162,843,909                                 | 1,535,826                           | 1,172,126                             | 751,677             | 466,175                    | 1,953,263                                   | \$                      | \$                      | 168,722,976           |
| Physical plant                     | 30,538,019                                  | 2,387,102                           | 108,067                               | 48,725              | 44,361,424                 | 2,337,199                                   | 40,819,057              | 443,239                 | 121,042,832           |
| Public service                     | 4,034,349                                   | 1,103,680                           | 708,684                               | 943,468             | 453,363                    | 540,481                                     | \$                      | \$                      | 7,784,025             |
| Research                           | 2,623,195                                   | 496,785                             | 514,281                               | 267,290             | 42,295                     | 518,744                                     | \$                      | \$                      | 4,462,590             |
| Scholarships, loans<br>and refunds | 553,220                                     | 85,630                              | 39,643,613                            | 2,370               | \$                         | 231,616                                     | \$                      | \$                      | 40,516,449            |
| Student services                   | 45,062,772                                  | 2,066,362                           | 1,496,187                             | 1,986,931           | 876,157                    | 3,217,292                                   | \$                      | \$                      | 54,705,701            |
| <b>Total expenses</b>              | <b>\$ 356,486,132</b>                       | <b>\$ 23,606,259</b>                | <b>\$ 61,445,953</b>                  | <b>\$ 6,361,055</b> | <b>\$ 59,196,689</b>       | <b>\$ 22,648,444</b>                        | <b>\$ 40,819,057</b>    | <b>\$ 443,239</b>       | <b>\$ 571,006,828</b> |

| Year ended June 30, 2006           |   |                                     |                                       |                     |                            |   |                         |                         |                       |
|------------------------------------|---|-------------------------------------|---------------------------------------|---------------------|----------------------------|---|-------------------------|-------------------------|-----------------------|
| Natural Classification             |   |                                     |                                       |                     |                            |   |                         |                         |                       |
|                                    | Personnel<br>service and<br>fringe benefits | Professional<br>service and<br>fees | Educational<br>service and<br>support | Travel<br>expense   | Operation of<br>facilities | Other operating<br>supplies and<br>expenses | Depreciation<br>expense | Amortization<br>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<br>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            |
| <b>Total expenses</b>              | <b>\$ 336,095,932</b>                       | <b>\$ 22,276,340</b>                | <b>\$ 56,268,003</b>                  | <b>\$ 5,644,761</b> | <b>\$ 54,569,659</b>       | <b>\$ 22,069,462</b>                        | <b>\$ 38,821,513</b>    | <b>\$ 281,022</b>       | <b>\$ 536,026,692</b> |

**Connecticut State University System**  
**Supplemental Financial Information**  
**June 30, 2007 and 2006**

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| Combining Statements of Net Assets                                   | S-2         |
| Combining Statements of Revenues, Expenses and Changes in Net Assets | S-4         |
| Combining Statements of Cash Flows                                   | S-6         |

**Connecticut State University System**  
**Combining Statements of Net Assets**  
**June 30, 2007 with Comparative Totals as of June 30, 2006**

|  | CCSU           | ECSU           | SCSU           | WCSU           | SO             | Combining Adjustments | 2007             | 2006             |
|--|----------------|----------------|----------------|----------------|----------------|-----------------------|------------------|------------------|
| <b>Assets</b>  |                |                |                |                |                |                       |                  |                  |
| <b>Current assets:</b>                               |                |                |                |                |                |                       |                  |                  |
| Cash and cash equivalents                            | \$ 41,333,116  | \$ 2,368,674   | \$ 34,627,879  | \$ 18,472,471  | \$ 11,434,912  | \$ -                  | \$ 108,237,052   | \$ 93,818,349    |
| Investments  | -              | -              | -              | -              | 14,370,704     | -                     | 14,370,704       | 20,604,317       |
| Student receivables                                  | 38,734,323     | 27,922,328     | 43,791,733     | 1,471,224      | -              | -                     | 111,919,608      | 109,593,575      |
| Allowance-doubtful student receivables               | (885,250)      | (1,380,415)    | (1,645,357)    | (1,174,754)    | -              | -                     | (5,085,776)      | (5,713,156)      |
| Student receivables, net                             | 37,849,073     | 26,541,913     | 42,146,376     | 296,470        | -              | -                     | 106,833,832      | 103,880,419      |
| Student loans receivable, current                    | 751,695        | 371,595        | 674,596        | 544,486        | -              | -                     | 2,342,372        | 2,142,910        |
| Grant receivables, net                               | 581,732        | 171,697        | 616,425        | 330,075        | -              | -                     | 1,699,929        | 2,090,970        |
| Miscellaneous receivables, net                       | 643,603        | 159,244        | 85,564         | 48,417         | 3,030          | -                     | 939,858          | 868,726          |
| Due from the State of Connecticut                    | 14,524,621     | 6,562,158      | 17,925,672     | 9,318,513      | 4,446,242      | -                     | 52,777,206       | 54,177,467       |
| Due from CSU and Universities                        | 193            | 1,501,450      | 111,000        | -              | 84,963         | (1,697,606)           | -                | -                |
| Prepaid expenses and other current assets            | 490,360        | 114,628        | 229,494        | 43,666         | 5,757          | -                     | 883,905          | 1,706,628        |
| Total current assets                                 | 96,174,393     | 37,791,359     | 96,417,006     | 29,054,098     | 30,345,608     | (1,697,606)           | 288,084,858      | 279,289,786      |
| <b>Noncurrent assets:</b>                            |                |                |                |                |                |                       |                  |                  |
| Cash and cash equivalents                            | 20,725,298     | 60,000         | 13,862,438     | 2,247,724      | 66,094,285     | -                     | 102,989,745      | 120,932,579      |
| Investments  | -              | -              | -              | -              | 26,666,419     | -                     | 26,666,419       | 27,641,814       |
| Due from CSU and Universities                        | 3,274,720      | 1,267,504      | 8,912          | -              | -              | (4,551,136)           | -                | -                |
| Loans receivables                                    | 3,491,762      | 1,425,257      | 4,146,687      | 1,690,011      | -              | -                     | 10,753,717       | 10,507,069       |
| Allowance-doubtful loan receivables                  | (632,048)      | (353,770)      | (1,293,037)    | (449,030)      | -              | -                     | (2,727,885)      | (2,649,786)      |
| Loans receivable, net                                | 2,859,714      | 1,071,487      | 2,853,650      | 1,240,981      | -              | -                     | 8,025,832        | 7,857,283        |
| Other assets   | -              | 200,334        | 100,124        | 86,632         | 3,493,293      | -                     | 3,880,383        | 4,293,645        |
| Investment in plant                                  | 331,554,968    | 271,056,139    | 339,645,739    | 276,134,237    | 24,925,659     | 6,466,004             | 1,249,782,746    | 1,208,576,840    |
| Accumulated depreciation                             | (116,619,358)  | (76,582,711)   | (121,039,339)  | (74,177,540)   | (16,584,442)   | -                     | (405,003,390)    | (371,040,951)    |
| Investment in plant, net of accumulated depreciation | 214,935,610    | 194,473,428    | 218,606,400    | 201,956,697    | 8,341,217      | 6,466,004             | 844,779,356      | 837,535,889      |
| Total noncurrent assets                              | 241,795,342    | 197,072,753    | 235,431,524    | 205,532,034    | 104,595,214    | 1,914,868             | 986,341,735      | 998,261,210      |
| Total assets   | \$ 337,969,735 | \$ 234,864,112 | \$ 331,848,530 | \$ 234,586,132 | \$ 134,940,822 | \$ 217,262            | \$ 1,274,426,593 | \$ 1,277,550,996 |

**Connecticut State University System**  
**Combining Statements of Net Assets**  
**June 30, 2007 with Comparative Totals as of June 30, 2006**

|   | CCSU                  | ECSU                  | SCSU                  | WCSU                  | SO                    | Combining<br>Adjustments | 2007                    | 2006                    |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------------------|-------------------------|-------------------------|
| <b>Liabilities</b>                              |                       |                       |                       |                       |                       |                          |                         |                         |
| Current liabilities:                            |                       |                       |                       |                       |                       |                          |                         |                         |
| Accounts payable                                | \$ 2,609,195          | \$ 1,903,359          | \$ 3,090,932          | \$ 957,790            | \$ 410,441            | \$ -                     | \$ 8,971,717            | \$ 12,883,142           |
| Accrued salaries and benefits                   | 14,590,231            | 6,553,423             | 14,900,377            | 7,415,678             | 692,167               | -                        | 44,151,876              | 41,574,977              |
| Accrued compensated absences                    | 574,645               | 303,674               | 491,001               | 105,329               | 115,008               | -                        | 1,589,657               | 1,479,399               |
| Due to the State of Connecticut                 | 227,511               | 833,177               | 214,524               | 1,065,983             | 2,435                 | -                        | 2,343,630               | 2,300,270               |
| Due to CSU and Universities                     | 27,956                | 17,152                | 26,972                | 14,526                | 1,611,000             | (1,697,606)              | -                       | -                       |
| Deferred revenue                                | 45,494,660            | 26,372,096            | 48,631,915            | 1,711,493             | -                     | -                        | 122,210,164             | 117,906,076             |
| Bonds payable                                   | -                     | -                     | -                     | -                     | 18,841,579            | -                        | 18,841,579              | 19,937,517              |
| Accrued bond interest payable                   | -                     | -                     | -                     | -                     | 2,258,626             | -                        | 2,258,626               | 2,365,634               |
| Capital lease obligation                        | 24,347                | -                     | 35,402                | -                     | -                     | -                        | 59,749                  | 118,033                 |
| Other liabilities                               | 1,900,040             | 259,731               | 2,492,060             | 945,812               | 454,317               | -                        | 6,051,960               | 7,591,392               |
| Depository accounts                             | 794,061               | 615,057               | 1,851,005             | 705,792               | (654)                 | -                        | 3,965,261               | 4,088,604               |
| Total current liabilities                       | <u>66,242,646</u>     | <u>36,857,669</u>     | <u>71,734,188</u>     | <u>12,922,403</u>     | <u>24,384,919</u>     | <u>(1,697,606)</u>       | <u>210,444,219</u>      | <u>210,245,044</u>      |
| Noncurrent liabilities:                         |                       |                       |                       |                       |                       |                          |                         |                         |
| Accrued compensated absences                    | 9,180,399             | 4,634,115             | 9,043,772             | 5,014,307             | 1,864,487             | -                        | 29,737,080              | 27,262,099              |
| Bonds payable                                   | -                     | -                     | -                     | -                     | 316,256,145           | -                        | 316,256,145             | 336,963,452             |
| Due to CSU and Universities                     | -                     | -                     | -                     | -                     | 4,551,136             | (4,551,136)              | -                       | -                       |
| Federal loan program advances                   | 3,136,752             | 1,459,188             | 3,549,050             | 1,632,106             | -                     | -                        | 9,777,096               | 9,697,016               |
| Deferred compensation                           | -                     | -                     | -                     | -                     | 134,353               | -                        | 134,353                 | 84,309                  |
| Other liabilities - ERIP                        | -                     | -                     | -                     | -                     | -                     | -                        | -                       | 2,227,440               |
| Capital lease obligation                        | 1,734                 | -                     | 23,122                | -                     | -                     | -                        | 24,856                  | 60,699                  |
| Total noncurrent liabilities                    | <u>12,318,885</u>     | <u>6,093,303</u>      | <u>12,615,944</u>     | <u>6,646,413</u>      | <u>322,806,121</u>    | <u>(4,551,136)</u>       | <u>355,929,530</u>      | <u>376,295,015</u>      |
| Total liabilities                               | <u>78,561,531</u>     | <u>42,950,972</u>     | <u>84,350,132</u>     | <u>19,568,816</u>     | <u>347,191,040</u>    | <u>(6,248,742)</u>       | <u>566,373,749</u>      | <u>586,540,059</u>      |
| <b>Net Assets</b>                               |                       |                       |                       |                       |                       |                          |                         |                         |
| Invested in capital assets, net of related debt | 214,839,816           | 194,418,362           | 218,547,876           | 201,956,697           | (217,309,226)         | 6,466,004                | 618,919,529             | 616,345,870             |
| Restricted:                                     |                       |                       |                       |                       |                       |                          |                         |                         |
| Nonexpendable                                   | -                     | 60,000                | 395,470               | 407,117               | 23,459                | -                        | 886,046                 | 483,100                 |
| Expendable                                      | 6,568,140             | 1,139,991             | 13,418,062            | 6,256,668             | -                     | -                        | 27,382,861              | 28,467,111              |
| Unrestricted                                    | <u>38,000,248</u>     | <u>(3,705,213)</u>    | <u>15,136,990</u>     | <u>6,396,834</u>      | <u>5,035,549</u>      | <u>-</u>                 | <u>60,864,408</u>       | <u>45,714,856</u>       |
| Total net assets                                | <u>259,408,204</u>    | <u>191,913,140</u>    | <u>247,498,398</u>    | <u>215,017,316</u>    | <u>(212,250,218)</u>  | <u>6,466,004</u>         | <u>708,052,844</u>      | <u>691,010,937</u>      |
| Total liabilities and net assets                | <u>\$ 337,969,735</u> | <u>\$ 234,864,112</u> | <u>\$ 331,848,530</u> | <u>\$ 234,586,132</u> | <u>\$ 134,940,822</u> | <u>\$ 217,262</u>        | <u>\$ 1,274,426,593</u> | <u>\$ 1,277,550,996</u> |

**Connecticut State University System**  
**Combining Statements of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2007 with Comparative Balances for the Year Ended June 30, 2006**

|   | CCSU            | ECSU            | SCSU            | WCSU            | SO              | Combining<br>Adjustments | 2007             | 2006             |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------------|------------------|------------------|
| Operating revenues:   |                 |                 |                 |                 |                 |                          |                  |                  |
| Tuition and fees:   |                 |                 |                 |                 |                 |                          |                  |                  |
| Tuition and fees, gross   | \$ 77,292,875   | \$ 32,974,048   | \$ 75,601,175   | \$ 34,561,916   | \$ (3,637,426)  | \$ -                     | \$ 216,792,588   | \$ 204,699,080   |
| Less:   |                 |                 |                 |                 |                 |                          |                  |                  |
| Scholarships allowance  | 5,520,890       | 3,233,762       | 5,087,541       | 2,321,349       | -               | -                        | 16,163,542       | 15,318,163       |
| Waivers   | 3,394,691       | 2,202,326       | 3,112,210       | 1,430,820       | -               | -                        | 10,140,047       | 10,287,736       |
| Debt service fee  | 6,760,248       | 3,481,160       | 6,856,343       | 3,827,614       | (20,598,109)    | (327,256)                | -                | -                |
| Tuition and fees, net of<br>scholarship allowances and<br>waivers | 61,617,046      | 24,056,800      | 60,545,081      | 26,982,133      | 16,960,683      | 327,256                  | 190,488,999      | 179,093,181      |
| Federal grants and contracts                                      | 17,549,533      | 3,192,038       | 6,718,922       | 2,462,102       | 24,880          | -                        | 29,947,475       | 29,529,963       |
| State and local grants and contracts                              | 3,410,807       | 1,434,503       | 4,139,633       | 2,203,955       | 12,000          | -                        | 11,200,898       | 10,337,226       |
| Nongovernment grants and contracts                                | 925,418         | 390,717         | 1,283,683       | 22,003          | -               | -                        | 2,621,821        | 3,115,351        |
| Indirect cost recoveries  | 320,788         | 111,989         | 219,924         | 4,235           | -               | -                        | 656,936          | 736,855          |
| Auxiliary revenues  | 19,966,415      | 19,117,171      | 18,338,132      | 12,551,513      | 4,659,771       | -                        | 74,633,002       | 67,882,585       |
| Other operating revenues  | 10,347,751      | 18,324,592      | 12,971,675      | 21,469,717      | 13,599,640      | (59,019,043)             | 17,694,332       | 13,636,269       |
| Total operating revenues  | 114,137,758     | 66,627,810      | 104,217,050     | 65,695,658      | 35,256,974      | (58,691,787)             | 327,243,463      | 304,331,430      |
| Operating expenses:   |                 |                 |                 |                 |                 |                          |                  |                  |
| Personnel service and fringe benefits                             | 108,907,345     | 62,244,947      | 114,226,347     | 61,508,159      | 9,599,334       | -                        | 356,486,132      | 336,095,932      |
| Professional services and fees                                    | 6,806,492       | 3,467,114       | 8,180,033       | 3,894,675       | 1,257,945       | -                        | 23,606,259       | 22,276,340       |
| Educational services and support                                  | 27,268,068      | 8,456,902       | 17,636,772      | 8,007,822       | 76,389          | -                        | 61,445,953       | 56,268,003       |
| Travel expenses   | 2,508,262       | 999,869         | 1,777,828       | 873,202         | 201,894         | -                        | 6,361,055        | 5,644,761        |
| Operation of facilities   | 23,848,783      | 10,705,934      | 19,961,238      | 20,156,230      | 44,610,004      | (60,085,500)             | 59,196,689       | 54,569,659       |
| Other operating supplies and expenses                             | 5,556,438       | 3,588,673       | 5,952,185       | 4,003,752       | 3,220,140       | 327,256                  | 22,648,444       | 22,069,462       |
| Depreciation expense  | 11,292,998      | 8,176,205       | 11,468,273      | 8,170,011       | 1,711,570       | -                        | 40,819,057       | 38,821,513       |
| Amortization expense  | -               | 127,760         | 22,037          | 44,084          | 249,358         | -                        | 443,239          | 281,022          |
| Total operating expenses  | 186,188,386     | 97,767,404      | 179,224,713     | 106,657,935     | 60,926,634      | (59,758,244)             | 571,006,828      | 536,026,692      |
| Operating loss  | \$ (72,050,628) | \$ (31,139,594) | \$ (75,007,663) | \$ (40,962,277) | \$ (25,669,660) | \$ 1,066,457             | \$ (243,763,365) | \$ (231,695,262) |

**Connecticut State University System**  
**Combining Statements of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2007 with Comparative Balances for the Year Ended June 30, 2006**

|   | CCSU                  | ECSU                  | SCSU                  | WCSU                  | SO                      | Combining<br>Adjustments | 2007                  | 2006                  |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|--------------------------|-----------------------|-----------------------|
| Nonoperating revenues:  |                       |                       |                       |                       |                         |                          |                       |                       |
| State appropriations  | \$ 70,394,466         | \$ 37,645,429         | \$ 69,821,514         | \$ 39,867,331         | \$ 8,318,101            | \$ -                     | \$ 226,046,841        | \$ 212,900,046        |
| Gifts   | 319,515               | 52,396                | 71,124                | 179,308               | 18,000                  | -                        | 640,343               | 708,372               |
| Investment income   | 3,586,380             | 454,691               | 2,967,918             | 1,335,368             | 5,265,876               | -                        | 13,610,233            | 12,504,148            |
| State financed plant facilities   | 931,068               | 2,096,383             | 221,000               | 3,920,762             | -                       | -                        | 7,169,213             | 68,077,006            |
| Other nonoperating revenues   | 539,038               | 428,330               | 1,118,156             | 400,589               | -                       | -                        | 2,486,113             | 2,354,668             |
| Net nonoperating revenues   | <u>75,770,467</u>     | <u>40,677,229</u>     | <u>74,199,712</u>     | <u>45,703,358</u>     | <u>13,601,977</u>       | <u>-</u>                 | <u>249,952,743</u>    | <u>296,544,240</u>    |
| Increase in net assets before other<br>revenues ,expenses, gains and losses | 3,719,839             | 9,537,635             | (807,951)             | 4,741,081             | (12,067,683)            | 1,066,457                | 6,189,378             | 64,848,978            |
| State appropriations restricted for<br>capital purposes                     | <u>1,911,884</u>      | <u>1,669,750</u>      | <u>3,086,850</u>      | <u>2,050,629</u>      | <u>2,133,416</u>        | <u>-</u>                 | <u>10,852,529</u>     | <u>17,001,414</u>     |
| Net increase (decrease) in net assets                                       | <u>5,631,723</u>      | <u>11,207,385</u>     | <u>2,278,899</u>      | <u>6,791,710</u>      | <u>(9,934,267)</u>      | <u>1,066,457</u>         | <u>17,041,907</u>     | <u>81,850,392</u>     |
| Net assets:   |                       |                       |                       |                       |                         |                          |                       |                       |
| Net assets - beginning of year  | <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>    |
| Net assets - end of year  | <u>\$ 259,408,204</u> | <u>\$ 191,913,140</u> | <u>\$ 247,498,398</u> | <u>\$ 215,017,316</u> | <u>\$ (212,250,218)</u> | <u>\$ 6,466,004</u>      | <u>\$ 708,052,844</u> | <u>\$ 691,010,937</u> |

**Connecticut State University System**  
**Combining Statements of Cash Flows**  
**June 30, 2007 with Comparative Totals as of June 30, 2006**

|  | CCSU          | ECSU          | SCSU          | WCSU          | SO           | Combining<br>Adjustments | 2007           | 2006           |
|--|---------------|---------------|---------------|---------------|--------------|--------------------------|----------------|----------------|
| Cash flows from operating activities:                |               |               |               |               |              |                          |                |                |
| Tuition and fees                                     | \$ 62,217,099 | \$ 24,428,928 | \$ 60,148,236 | \$ 27,224,905 | \$ 2,524,710 | \$ 327,256               | \$ 176,871,134 | \$ 161,517,681 |
| Grants and contracts                                 | 21,934,690    | 4,994,150     | 12,863,518    | 4,670,200     | 36,880       | -                        | 44,499,438     | 42,272,739     |
| Auxiliary revenues                                   | 19,599,155    | 19,216,220    | 18,550,496    | 11,837,496    | 4,659,771    | -                        | 73,863,138     | 68,046,518     |
| Other operating revenues                             | 7,717,755     | 15,524,640    | 13,030,699    | 14,142,629    | 13,324,714   | (59,019,043)             | 4,721,394      | 17,549,038     |
| Payments to employees for salaries and benefits      | (108,153,924) | (62,140,438)  | (113,473,350) | (60,820,479)  | (9,079,616)  | -                        | (353,667,807)  | (328,793,985)  |
| Payments to supplier                                 | (3,382,139)   | (1,287,636)   | (1,895,210)   | (1,919,009)   | (112,516)    | -                        | (8,596,510)    | (4,751,399)    |
| Professional services and fees                       | (6,892,482)   | (3,449,963)   | (8,166,013)   | (3,880,189)   | (1,257,945)  | -                        | (23,646,592)   | (21,637,207)   |
| Educational services and support                     | (27,028,447)  | (8,456,902)   | (17,636,772)  | (8,007,823)   | (76,389)     | -                        | (61,206,333)   | (55,153,583)   |
| Travel expenses                                      | (2,470,886)   | (999,869)     | (1,777,828)   | (873,202)     | (201,894)    | -                        | (6,323,679)    | (5,485,191)    |
| Operation of facilities                              | (23,430,735)  | (9,399,851)   | (19,468,744)  | (7,317,897)   | (44,407,994) | 60,085,500               | (43,939,721)   | (59,131,471)   |
| Other operating supplies and expenses                | (2,801,543)   | (2,000,273)   | (5,094,421)   | (6,816,455)   | (3,675,797)  | (327,256)                | (20,715,745)   | (12,353,483)   |
| University fee receipts                              | -             | -             | -             | -             | 20,598,109   | -                        | 20,598,109     | 19,474,383     |
| Net cash used by operating activities                | (62,691,457)  | (23,570,994)  | (62,919,389)  | (31,759,824)  | (17,667,967) | 1,066,457                | (197,543,174)  | (178,445,960)  |
| Cash flows from noncapital financing activities:     |               |               |               |               |              |                          |                |                |
| State appropriations                                 | 69,860,967    | 38,318,230    | 69,459,973    | 39,233,926    | 8,107,897    | -                        | 224,980,993    | 209,513,508    |
| Gifts for other than capital purposes                | 319,515       | 16,020        | 71,124        | 176,363       | 18,000       | -                        | 601,022        | 708,371        |
| Nonoperating revenue other                           | 685,503       | 428,330       | 1,255,460     | 400,593       | -            | -                        | 2,769,886      | 4,340,384      |
| Net cash provided by noncapital financing activities | \$ 70,865,985 | \$ 38,762,580 | \$ 70,786,557 | \$ 39,810,882 | \$ 8,125,897 | \$ -                     | \$ 228,351,901 | \$ 214,562,263 |

**Connecticut State University System**  
**Combining Statements of Cash Flows**  
**June 30, 2007 with Comparative Totals as of June 30, 2006**

|   | CCSU          | ECSU         | SCSU          | WCSU          | SO            | Combining<br>Adjustments | 2007           | 2006           |
|---|---------------|--------------|---------------|---------------|---------------|--------------------------|----------------|----------------|
| Cash flows from investing activities:                     |               |              |               |               |               |                          |                |                |
| Proceeds from sales of investments                        | -             | -            | -             | -             | \$ 7,209,008  | \$ -                     | \$ 7,209,008   | \$ 62,889,078  |
| Interest and dividends received on investments            | 3,424,255     | 454,691      | 2,783,301     | 1,335,367     | 5,265,876     | -                        | 13,263,490     | 11,879,321     |
| Net cash provided by investing activities                 | 3,424,255     | 454,691      | 2,783,301     | 1,335,367     | 12,474,884    | -                        | 20,472,498     | 74,768,399     |
| Cash flows from capital and related financing activities: |               |              |               |               |               |                          |                |                |
| Cash paid for capital assets                              | (6,314,816)   | (17,647,315) | (9,591,102)   | (10,460,433)  | (1,844,031)   | (1,066,457)              | (46,924,154)   | (79,065,389)   |
| Capital appropriations received                           | 1,911,883     | 1,669,750    | 5,442,969     | 3,154,869     | 1,410,005     | -                        | 13,589,476     | 20,415,347     |
| Proceeds of new bond issuance                             | -             | -            | -             | -             | 62,416,041    | -                        | 62,416,041     | -              |
| Repayments of capital debt and leases                     | -             | -            | -             | -             | (83,205,977)  | -                        | (83,205,977)   | (16,294,339)   |
| Capital grants and gifts received                         | -             | 36,376       | -             | -             | -             | -                        | 36,376         | -              |
| Payment on bond issuance costs                            | -             | -            | -             | -             | (717,118)     | -                        | (717,118)      | -              |
| Net cash used in capital and related financing activities | (4,402,933)   | (15,941,189) | (4,148,133)   | (7,305,564)   | (21,941,080)  | (1,066,457)              | (54,805,356)   | (74,944,381)   |
| Net increase (decrease) in cash and cash equivalents      | 7,195,850     | (294,912)    | 6,502,336     | 2,080,861     | (19,008,266)  | -                        | (3,524,131)    | 35,940,321     |
| Cash and cash equivalents, beginning of year              | 54,862,564    | 2,723,586    | 41,987,981    | 18,639,334    | 96,537,463    | -                        | 214,750,928    | 178,810,607    |
| Cash and cash equivalents, end of year                    | \$ 62,058,414 | \$ 2,428,674 | \$ 48,490,317 | \$ 20,720,195 | \$ 77,529,197 | \$ -                     | \$ 211,226,797 | \$ 214,750,928 |

**Connecticut State University System**  
**Combining Statements of Cash Flows**  
**June 30, 2007 with Comparative Totals as of June 30, 2006**

|   | CCSU                   | ECSU                   | SCSU                   | WCSU                   | SO                     | Combining<br>Adjustments | 2007                    | 2006                    |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|-------------------------|-------------------------|
| Reconciliation of operating loss to net cash used in operating activities:              |                        |                        |                        |                        |                        |                          |                         |                         |
| Operating loss  | \$ (72,050,628)        | \$ (31,139,594)        | \$ (75,007,663)        | \$ (40,962,277)        | \$ (25,669,660)        | \$ 1,066,457             | \$ (243,763,365)        | \$ (231,695,262)        |
| Adjustments to reconcile operating loss to net cash used in operating activities:       |                        |                        |                        |                        |                        |                          |                         |                         |
| Depreciation expense  | 11,292,998             | 8,176,205              | 11,468,273             | 8,170,011              | 1,711,570              | -                        | 40,819,057              | 38,821,513              |
| Bad debt write-offs   | 85,511                 | 92,055                 | 400,324                | 176,138                | -                      | -                        | 754,028                 | (34,352)                |
| Amortization  | -                      | 127,760                | 22,037                 | 44,084                 | 249,358                | -                        | 443,239                 | 281,022                 |
| Changes in assets and liabilities:  |                        |                        |                        |                        |                        |                          |                         |                         |
| Receivables   | (3,826,712)            | (1,821,429)            | 2,247,550              | 238,652                | (277,633)              | -                        | (3,439,572)             | (2,264,215)             |
| Prepaid expenses and other  | 25,032                 | 179,244                | 130,986                | 22,232                 | (1,893,553)            | -                        | (1,536,059)             | 1,281,706               |
| Accounts payable  | 633,894                | 1,066,232              | (90,682)               | 146,762                | (35,242)               | -                        | 1,720,964               | 2,651,131               |
| Accrued salaries  | 712,921                | 233,894                | 732,064                | 804,427                | 93,593                 | -                        | 2,576,899               | 8,146,489               |
| Other liabilities   | (1,197,025)            | (129,066)              | (1,806,941)            | (483,883)              | 1,746,171              | -                        | (1,870,744)             | (607,905)               |
| Due to State of Connecticut   | (12,240)               | 67,370                 | (15,211)               | 3,839                  | (398)                  | -                        | 43,360                  | 280,705                 |
| Due to/from Universities  | (3,154,064)            | (2,843,166)            | (105,892)              | 14,486                 | 6,088,636              | -                        | -                       | -                       |
| Deferred revenues   | 4,216,249              | 2,180,219              | (1,693,394)            | (398,986)              | -                      | -                        | 4,304,088               | 5,248,295               |
| Deferred compensation   | -                      | -                      | -                      | -                      | 50,043                 | -                        | 50,043                  | (16,656)                |
| Deposit accounts  | (128,782)              | (54,399)               | 39,846                 | 20,315                 | (323)                  | -                        | (123,343)               | 85,523                  |
| Accrued bond interest payable   | -                      | -                      | -                      | -                      | (107,008)              | -                        | (107,008)               | 452,818                 |
| Accrued compensated absences  | 711,389                | 293,681                | 759,314                | 444,376                | 376,479                | -                        | 2,585,239               | (1,076,772)             |
| Net cash used in operating activities   | <u>\$ (62,691,457)</u> | <u>\$ (23,570,994)</u> | <u>\$ (62,919,389)</u> | <u>\$ (31,759,824)</u> | <u>\$ (17,667,967)</u> | <u>\$ 1,066,457</u>      | <u>\$ (197,543,174)</u> | <u>\$ (178,445,960)</u> |
| Noncash investing, noncapital financing and capital and related financing transactions: |                        |                        |                        |                        |                        |                          |                         |                         |
| Fixed assets acquired by incurring capital leases                                       | \$ -                   | \$ -                   | \$ 29,125              | \$ -                   | \$ -                   | \$ -                     | \$ 29,125               | \$ 5,317                |
| Fixed assets included in accounts payable   | \$ 567,679             | \$ 99,799              | \$ 492,495             | \$ -                   | \$ -                   | \$ -                     | \$ 1,159,973            | \$ 6,299,867            |
| Reconciliation of cash and cash equivalents to the combined statements of net assets:   |                        |                        |                        |                        |                        |                          |                         |                         |
| Cash and cash equivalents classified as current assets                                  | \$ 41,333,116          | \$ 2,368,674           | \$ 34,627,879          | \$ 18,472,471          | \$ 11,434,912          | \$ -                     | \$ 108,237,052          | \$ 93,818,349           |
| Cash and cash equivalents classified as noncurrent assets                               | <u>20,725,298</u>      | <u>60,000</u>          | <u>13,862,438</u>      | <u>2,247,724</u>       | <u>66,094,285</u>      | <u>-</u>                 | <u>102,989,745</u>      | <u>120,932,579</u>      |
|   | <u>\$ 62,058,414</u>   | <u>\$ 2,428,674</u>    | <u>\$ 48,490,317</u>   | <u>\$ 20,720,195</u>   | <u>\$ 77,529,197</u>   | <u>\$ -</u>              | <u>\$ 211,226,797</u>   | <u>\$ 214,750,928</u>   |