

University of Connecticut (Storrs & Regional Campuses)

Overview of the Quarterly Report of the Operating and Research Funds Analysis of the Six Months Ended December 31, 2006

Summary

On September 26, 2006, the Board of Trustees approved a revised Spending Plan for Fiscal Year 2007 of \$856.0 million. The Spending Plan was updated with final State fringe benefit rates. The Research Fund budget, Investment Income and Operating Fund Gifts, Grants and Contracts were also revised to reflect activity more consistent with Fiscal Year 2006 closeout. This updated budget includes \$855.0 million of revenue to cover \$856.0 million in expenses, yielding a \$1.0 million net loss. This net loss is comprised of a \$1.0 million gain representing the reserve repayment for the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union and a budgeted \$2.0 million loss in Auxiliary Enterprises due to increased energy costs.

Financial results for the first six months of Fiscal Year 2007 reflect a number of different factors when compared to budget. Overall, revenue was slightly ahead of budget. Actual revenue totaled \$427.9 million or 50.1% of the budget. At the close of December, the University expenditures and transfers totaled \$413.0 million or 48.2% of the budget as was expected. Energy expenditures are now projected to be under budget while student aid expenditures are projected to be over budget. For the fiscal year-end, a balanced budget is projected. Anticipated energy savings will reduce the budgeted loss in Auxiliary Enterprises. In addition, energy savings combined with projected investment income will offset the projected overage in student financial aid.

The net gain for the Operating Fund shown in this six month report is not indicative of expected annual results, as more Operating Fund revenue is typically received in the first and second quarters of the fiscal year while expenditures are more evenly distributed throughout the year.

Actual results at December 31, 2006 include certain accounting accruals and adjustments. Prior to Fiscal Year 2006, these accruals and adjustments were only recorded at the end of the fiscal year. Although they have always been a component in our projections, the affect of these accruals and adjustments can distort comparisons with pre Fiscal Year 2006 results at December 31st.

A more detailed review of the first six months of Fiscal Year 2007 operations is presented below.

Revenues – Operating Fund

Total **Operating Fund** revenue collections for the first six months of Fiscal Year 2007 were \$394.2 million which represented 50.2% of the annual budget. A major source of revenue, **State Support**, consisted of a \$111.1 million appropriation and a fringe benefit allotment of \$42.0 million. State Support represented 38.8% of total Operating Fund receipts for the first six months. The end-of-year forecast is showing a positive variance of \$0.7 million, which is primarily due to support specifically earmarked under the State Early Retirement Incentive

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Program (ERIP) to cover the second of three payments to retired employees for their accrued sick and vacation time. There is also some funding for a settled collective bargaining agreement that was not included in the State appropriation. **Tuition** collections were the second largest source of revenue, totaling \$91.2 million, which represented 23.1% of total Operating Fund receipts. Tuition receipts for the first and second quarters of Fiscal Year 2007 were 50.8% of the annual amount budgeted (\$179.6 million) which is consistent with recent experience. Tuition revenue collections reflect a 5.9% rate increase coupled with a 1.8% increase in the number of undergraduate degree-seeking students who account for approximately 86.9% of budgeted tuition revenues. Tuition income is projected to end this fiscal year on budget.

Fee revenue is comprised of course fees from summer school, part-time, and non-degree students as well as self-supporting programs (off campus MBA, EMBA, etc.). Also included in this category is the General University Fee, which primarily supports four Auxiliary Enterprise programs and various other fees such as the Infrastructure Maintenance Fee, Application Fees and Late Payment Fees. The first six months Fee collections were \$37.1 million or 51.9% of the amount budgeted. Fee revenue is \$1.8 million ahead of budget at this point in time but is expected to be on target for the year.

Auxiliary Enterprise Revenue for the first two quarters of Fiscal Year 2007 was \$68.6 million which represented 51.8% of the annual budgeted amount and was slightly ahead of budget. Auxiliary revenue consisted primarily of Room and Board Fees (\$49.6 million) and Athletic Department receipts (\$17.1 million).

The remaining revenue categories are (1) Grants and Contracts (non-research), (2) Investment Income, (3) Sales and Services of Educational Activities, and (4) Other Sources (primarily parking, transit fee, and rental income).

Gifts, Grants and Contracts revenue consists of restricted revenues from a granting agency or private donor and gifts transferred from the UConn Foundation. For the first two quarters of Fiscal Year 2007, Gifts, Grants and Contracts revenue of \$26.2 million, which included \$4.8 million from the UConn Foundation, was 41.6% of the annual budget. This category is expected to come in \$0.8 million above budget due to additional state and federal funding for student financial aid.

Investment Income has exceeded the budget for the first two quarters of Fiscal Year 2007 with revenues of \$5.4 million. Interest rates continue to climb with the rate for December 2006 at 5.47% compared to 4.37% in December 2005. The projected investment income for the year is \$9.5 million or \$0.4 million ahead of budget. Actual results will depend on interest rates and the University's cash balance.

Sales and Services of Educational Activities and Other Sources revenue totaled \$12.6 million for the first six months, slightly more than the budgeted amount. The end-of-year projection is a positive variance of \$0.6 million.

Revenues – Research Fund

With respect to the **Research Fund**, the granting agency or donor restricts most of the revenues. For the first two quarters Research Fund revenues were \$33.7 million and

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represented 48.1% of the amount budgeted. In Fiscal Year 2006, Research Fund revenues reported in the first two quarters totaled \$35.5 million and represented 43.7% of the amount budgeted. As noted above, the Research Fund budget was revised in September to reflect activity consistent with Fiscal Year 2006 actual results.

Expenditures/Transfers

Total Operating Fund expenditures and transfers for the first two quarters of Fiscal Year 2007 were \$378.5 million or 48.2% of the annual budgeted amount, which is consistent with the historical spending pattern. Individual categories of expenditures as a percentage of the annual budget were as follows:

Personal Services	47.9%
Fringe Benefits	50.2%
Other Expenses	45.1%
Equipment	64.9%
Student Aid	53.9%
Transfers	42.7%

Personal Services/Fringe Benefits are slightly less than budget for the first two quarters. The Fiscal Year 2007 Operating Fund budget for personal services and fringe benefits was \$485.8 million. This category is projected to be on budget for the fiscal year. Primarily as a result of internal reallocations, the University was able to identify resources to fund a net increase of 13 full-time faculty and 79 full-time staff (based on the IPEDS federal reporting standard). The hiring of the additional full-time faculty is part of the on-going effort to meet the course coverage demands of increased undergraduate enrollment. Even with the additional faculty, the student-to-faculty ratio has remained essentially constant. As always, the personal service and fringe benefit expenditures will be monitored closely throughout the year (they represent 62.3% of the first six months of Operating Fund expenditures). A more precise forecast will be available at the end of the third quarter.

Other Expenses (including energy costs) are expected to be under budget by approximately \$4.0 million. Energy expenditures are now projected to be under budget primarily due to lower natural gas prices. The University negotiated a contract with Connecticut Natural Gas which locked in rates lower than rates used to build the energy budget. Also, the weather conditions through December have been favorable. However, this may change as the region experiences more seasonal temperatures. In addition, particularly for the parts of the University not connected to the Cogeneration plant, the newly approved electric rate increase (8%-19% for commercial users) will have a negative impact on our energy budget. Other items in this category are projected to be on budget at this time.

As of December 31, 2006, **Equipment** expenditures of \$6.3 million were 64.9% of the amount budgeted and represented 1.7% of the operating expenditures. Expenditures for the first two quarters were ahead of budget primarily due to unliquidated Fiscal Year 2006 encumbrances. As a result, equipment expenditures are anticipated to exceed the budget for the year.

Student Aid funds are predominantly spent in the first and third quarter of the fiscal year. As stated at the Board of Trustees meeting on November 14, 2006, it was anticipated that

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additional funds would need to be allocated for need-based financial aid. At present, the student financial aid projection for this fiscal year is \$76.5 million or \$4.5 million over budget. Please note that \$1.8 million of the overage will be covered with additional funds from state and federal sources. A clearer picture of the fiscal year forecast will be available after the spring semester awards are processed in February/March. Any overage is anticipated to be offset by additional investment income and projected energy savings.

The **Transfers** line reflects transfers to Plant Funds for various building improvements, including code-related corrective action in keeping with the budget approved by the Board of Trustees in June. Transfers also include bond and installment loan payments as well as payments for the capital lease for the cogeneration plant. Finally, **Research Fund** expenditures and transfers totaled \$34.5 million and represented 49.2% of the budgeted amount. Because of the variability of research expenditures, quarterly comparisons are not necessarily indicative of annual results.

Enrollment

Total University enrollment for fall 2006 (excluding the Health Center) is up 1.4% from fall 2005. First semester freshmen enrollment is up 3.2% from fall 2005; however, total undergraduate enrollment (degree and non-degree) is up only 1.3%. The current year budget was based on assumptions of a 1.9% increase in total University enrollment and a 2.6% increase in undergraduate enrollment.

Cash Balance

The December 31, 2006 current funds cash balance was \$140.0 million, a decrease of \$5.8 million as compared to the December 2005 amount of \$145.8 million. The current funds cash balance reflected the collection of 50.0% of budgeted revenue while total expenditures and transfers were 48.2% of budget. Thus, as is always the case, the cash balance is expected to decrease as expenditure outlays exceed future revenue collections as the year progresses. Also, the December 31, 2006 cash balance represented 14.1% of the annual expenditure budget as compared to 16.3% one-year ago. If historical trends hold, the year-end cash balance will be below last year's year-end cash balance of \$96.4 million.

Fund Balance

The University is projected to have a balanced budget for the fiscal year ended June 30, 2007, which results in a Current Funds Unrestricted Fund Balance of \$46.2 million (Operating Fund-\$28.6 million; Research Fund-\$17.6 million). This represented 6.1% of the current year's unrestricted expenditure budget. Also, in accordance with standard University procedures, centrally funded unrestricted fund balances are carried forward in departmental accounts and are available for expenditure in the current and future fiscal years. The Fiscal Year 2007 budget assumes a consistent level of departmental fund balances at June 30, 2007. Any variance from this assumption will affect the projected level of the fund balance at year-end.

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Statement of Operating Budget Revenues and Expenses (a)
For the Six Months Ending 12/31/2006 for the 6 Month Financials

	Operating Budget					Actual w/accruals as of 12/31/06								
	GRAND TOTAL	RESEARCH FUND	OPERATING FUND			GRAND TOTAL	RESEARCH FUND	% of Budget	OPERATING FUND			% of Budget	% of Actl	
			E&G	Aux Ent	Subtotal				E&G	Aux Ent	Subtotal			
REVENUE														
State Appropriations	\$221,787,561		\$221,787,561		\$221,787,561	\$110,799,657			\$110,799,657		110,799,657	50.0%	28.1%	
State Allotment Fringe Benefits	83,499,631		83,499,631		83,499,631	41,850,536			41,850,536		41,850,536	50.1%	10.6%	
<i>Subtotal FY07 State Support</i>	<u>305,287,192</u>		<u>305,287,192</u>		<u>305,287,192</u>	<u>152,650,193</u>			<u>152,650,193</u>		<u>152,650,193</u>	<u>50.0%</u>	<u>38.7%</u>	
FY06 Carryforward-PS	350,000		350,000		350,000	350,000			350,000		350,000	100.0%	0.1%	
FY06 Carryforward-FB	134,855		134,855		134,855	134,855			134,855		134,855	100.0%	0.0%	
<i>Total State Support</i>	<u>305,772,047</u>		<u>305,772,047</u>		<u>305,772,047</u>	<u>153,135,048</u>			<u>153,135,048</u>		<u>153,135,048</u>	<u>50.1%</u>	<u>38.8%</u>	
Tuition	179,568,419	0	175,415,983	4,152,436	179,568,419	91,165,761	0		87,013,325	4,152,436	91,165,761	50.8%	23.1%	
Fees	71,426,839	0	50,531,898	20,894,941	71,426,839	37,080,643	0		16,005,296	21,075,347	37,080,643	51.9%	9.4%	
Grants & Contracts	112,394,036	69,041,707	42,876,329	476,000	43,352,329	55,025,291	33,618,531	48.7%	21,193,173	213,586	21,406,759	60.4%	5.4%	
Foundation	19,932,679	350,000	6,830,826	12,751,853	19,582,679	4,768,680	11,662	3.3%	2,518,743	2,238,275	4,757,018	51.7%	1.2%	
Investment Income	9,141,000	0	9,141,000	0	9,141,000	5,365,698	0		5,312,743	52,955	5,365,698	58.7%	1.4%	
Sales and Services of Ed Activities	14,135,000	525,000	13,610,000	0	13,610,000	6,542,782	8,563	1.6%	6,534,219	0	6,534,219	48.0%	1.7%	
Aux Enterprise Revenue	132,352,992	0	0	132,352,992	132,352,992	68,603,031	0		0	68,603,031	68,603,031	51.8%	17.4%	
Other Sources	10,266,902	125,000	10,141,902	0	10,141,902	6,221,292	64,170	51.3%	6,153,563	3,559	6,157,122	60.7%	1.6%	
TOTAL REVENUE	<u>854,989,914</u>	<u>70,041,707</u>	<u>614,319,985</u>	<u>170,628,222</u>	<u>784,948,207</u>	<u>\$427,908,225</u>	<u>\$33,702,926</u>	<u>48.1%</u>	<u>\$297,866,109</u>	<u>\$96,339,189</u>	<u>\$394,205,299</u>	<u>50.2%</u>	<u>100.0%</u>	
DISBURSEMENTS/TRANS:														
Personal Services	403,662,854	36,062,712	321,327,906	46,272,236	367,600,142	194,072,400	17,814,387	49.4%	154,766,705	21,491,308	176,258,013	47.9%	46.6%	
Fringe Benefits	126,537,320	8,294,424	101,559,709	16,683,187	118,242,896	63,407,715	4,009,774	48.3%	51,598,782	7,799,159	59,397,941	50.2%	15.7%	
Other Expenses	205,141,214	20,143,657	109,871,045	75,126,512	184,997,557	94,274,253	10,767,019	53.5%	48,144,533	35,362,701	83,507,234	45.1%	22.1%	
Equipment	14,309,394	4,540,914	6,335,302	3,433,178	9,768,480	7,548,953	1,204,753	26.5%	4,771,166	1,573,034	6,344,200	64.9%	1.7%	
Fixed Charges/Student Aid (b)	72,979,516	1,000,000	63,179,516	8,800,000	71,979,516	39,161,786	398,603	39.9%	34,346,199	4,416,984	38,763,183	53.9%	10.2%	
Total Expenditures	<u>822,630,298</u>	<u>70,041,707</u>	<u>602,273,478</u>	<u>150,315,113</u>	<u>752,588,591</u>	<u>398,465,107</u>	<u>34,194,536</u>		<u>293,627,385</u>	<u>70,643,186</u>	<u>364,270,571</u>	<u>48.4%</u>	<u>96.2%</u>	
Mandatory	24,351,057	0	11,037,499	13,313,558	24,351,057	12,686,931	24,673		5,891,576	6,770,682	12,662,258	52.0%	3.3%	
Non Mandatory	9,015,254	0	-	9,015,254	9,015,254	1,810,663	233,008		(4,424,420)	6,002,075	1,577,655	17.5%	0.4%	
Total Expense/Transfer	<u>855,996,609</u>	<u>70,041,707</u>	<u>613,310,977</u>	<u>172,643,925</u>	<u>785,954,902</u>	<u>412,962,701</u>	<u>34,452,218</u>	<u>49.2%</u>	<u>295,094,541</u>	<u>83,415,943</u>	<u>378,510,484</u>	<u>48.2%</u>	<u>100.0%</u>	
NET GAIN(LOSS)	<u>(\$1,006,695)</u>	<u>\$0</u>	<u>\$1,009,008</u>	<u>(\$2,015,703)</u>	<u>(\$1,006,695)</u>	<u>\$14,945,524</u>	<u>(\$749,291)</u>		<u>\$2,771,569</u>	<u>\$12,923,246</u>	<u>\$15,694,815</u>			
NET INC(DEC) CASH BALANCE						<u>\$43,555,403</u>								
CASH BALANCE 6/30/06						<u>\$96,429,640</u>								
CASH BALANCE 12/31/06						<u>\$139,985,043</u>								

(a) Budgeted and actual revenues and expenditures represent accrual basis, excepting compensated absences which will be accrued at fiscal year end, rather than cash expenditures.

(b) An additional \$1.9 million of Student Labor Financial Aid is included in the Personal Services Line.

UNAUDITED

UNIVERSITY OF CONNECTICUT
Projection of Changes in Net Assets - All Funds
For the Year Ended June 30, 2007

	<u>Operating Fund</u>	<u>Research Fund</u>	<u>Subtotal</u>	<u>Other Funds</u>	<u>Total</u>
<u>Revenues and Expenditures, 6/30/2007</u>					
Revenue	\$ 784,948,206	\$ 70,041,707	\$ 854,989,913	\$ 189,990,032	\$ 1,044,979,945
Expenditures and Transfers	785,954,901	70,041,707	855,996,608	176,324,845	1,032,321,453
Net Increase (Decrease)	<u>\$ (1,006,695)</u>	<u>\$ -</u>	<u>\$ (1,006,695)</u>	<u>\$ 13,665,188</u>	<u>\$ 12,658,493</u>
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Net Assets, 6/30/06 (Unaudited)					
Restricted and invested in capital net of related debt	\$ 11,299,630	\$ (26,553)	\$ 11,273,077	\$ 1,278,040,479	\$ 1,289,313,556
Unrestricted	28,582,235	17,646,739	46,228,973	48,109,094	94,338,067
Total, 6/30/06	<u>\$ 39,881,865</u>	<u>\$ 17,620,186</u>	<u>\$ 57,502,050</u>	<u>\$ 1,326,149,573</u>	<u>\$ 1,383,651,623</u>
Compensated Absences Liability, 6/30/06	\$ 23,262,901				
Change at 6/30/07					
Restricted and invested in capital net of related debt	\$ -	\$ -	\$ -	\$ 9,198,678	\$ 9,198,678
Unrestricted	(1,006,695)	-	(1,006,695)	4,466,509	3,459,814
Subtotal, 6/30/07	<u>\$ (1,006,695)</u>	<u>\$ -</u>	<u>\$ (1,006,695)</u>	<u>\$ 13,665,188</u>	<u>\$ 12,658,493</u>
Net Assets, 6/30/07					
Restricted and invested in capital net of related debt	\$ 11,299,630	\$ (26,553)	\$ 11,273,077	\$ 1,287,239,157	\$ 1,298,512,234
Unrestricted	27,575,540	17,646,739	45,222,278	52,575,603	97,797,881
Total, 6/30/07	<u>\$ 38,875,170</u>	<u>\$ 17,620,186</u>	<u>\$ 56,495,355</u>	<u>\$ 1,339,814,760</u>	<u>\$ 1,396,310,116</u>
Compensated Absences Liability, 6/30/07	\$ 21,962,900				