



University of Connecticut

Office of the Chief Financial Officer

TO: Mary Johnson
Chief Fiscal Officer, Department of Higher Education

FROM: Bruce A. DeTora
Chief Financial Officer

DATE: February 1, 2006

SUBJECT: FY 2006 Operating and Research Funds Quarterly Report

Enclosed is the University of Connecticut's Quarterly Report of the Operating and Research Funds for the six-month period ended December 31, 2005.

If you should have any questions or need any additional information, please contact me at 486-2434.

Enclosures

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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, 2005

Summary: The following narrative provides information on the main drivers of the financial results for the University Storrs-based operating budget for the six months ended December 31, 2005.

On September 20, 2005, the Board of Trustees approved a revised Spending Plan for Fiscal Year 2006 of \$806.2 million. This updated University Operating budget includes \$798.2 million of revenue to cover \$806.2 million in expenses, yielding an \$8.0 million net loss. This loss is the net result of a budgeted \$1.0 million gain to replenish the reserves for the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union and \$9.0 million of additional equipment (and related) expenditures. The budgeted \$8.0 million loss for FY06 is covered by unexpended equipment funds carried forward from Fiscal Year 2005.

For the first time, actual results at December 31, 2005 include certain accounting accruals and adjustments. In previous years, 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 prior year results at December 31st.

Financial results for the first six months of Fiscal Year 2006 reflect a number of different factors when compared to budget. The Operating Fund is currently projected to end the year with a net loss of \$10.6 million of which, \$8.0 million was planned (see above). Revenue has variances among various categories. The expected net result is a positive variance of \$5.2 million. Expenditures in the Operating Fund are expected to be over budget by \$7.8 million. The Research Fund budget is \$81.3 million; however, it appears that by year end the total activity will be \$74.1 million resulting in a \$7.2 million variance.

A more detailed review of the first six months of FY 2006 operations is presented below.

Revenues – Operating Fund

Total **Operating Fund** revenue collections for the first six months of FY 2006 were \$371.9 million which represented 51.9% of the annual budget. A major source of revenue, **State Support** totaling \$147.4 million, consisted of a \$108.7 million appropriation and a fringe benefit allotment of \$38.7 million. State Support represented 39.6% of total Operating Fund six month receipts. The net projection is a positive variance of \$2.7 million. This represents additional support to cover the first of three payments to retired employees for their sick and vacation time under the Early Retirement Incentive Program (ERIP) and accruals associated with the general fund appropriation. **Tuition** collections are the second largest source of revenue, totaling \$84.9 million, which represented 22.8% of total Operating Fund receipts. Tuition receipts for the first two quarters of Fiscal Year 2006 were 50.9% of the annual \$167.0 million budget. Tuition revenue collections reflect a 5.6% rate increase coupled with a 2.9% increase in undergraduate degree seeking students who generate approximately 86% of actual tuition revenues. Tuition is projected to end this fiscal year slightly under budget by \$0.9 million.

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. Fee revenue for the period ending December 31, 2005 was \$34.6 million or 50.6% of the amount budgeted for the year.

Auxiliary Enterprise Revenue for the first two quarters of Fiscal Year 2006 was \$62.6 million which represented 50.6% of the annual budgeted amount. Auxiliary revenue consists primarily of Room and Board Fees and Athletic Department receipts.

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

The first category of **Grants and Contracts** revenue consists primarily of restricted revenues from a granting agency or donor. At the end of the second quarter, Grants and Contracts revenue of \$26.7 million, which included support from the UConn Foundation of \$5.6 million, is essentially on target for the year.

Investment Income has already exceeded the FY06 budget with revenues of \$3.6 million while the total budget is \$3.3 million. Interest rates have increased substantially since last fiscal year and cash balances are greater due to more timely transfers of fringe benefits. The FY06 projected investment income is \$5.0 million. The additional \$1.7 million in revenue will be applied to the Other Expenses category to cover the increases in the cost of energy.

Sales and Services of Educational Activities and Other Revenue totaled \$12.1 million for the first two quarters and are projected to end the year slightly ahead of budget by \$1.7 million.

Revenues – Research Fund

With respect to the **Research Fund**, the granting agency or donor restricts the use of most of the revenues. For the first six months, Research Fund revenues were \$35.5 million and represented 43.7% of the amount budgeted. In FY05, Research Fund revenues reported in the first six months totaled \$40.1 million and represented 49.0% of the amount budgeted. Based on activity to date and prior year history, the projected Research Fund revenues will be \$74.1 million at year end compared with the original budget of \$81.3 million.

Expenditures/Transfers

Total Operating Fund expenditures and transfers for the first two quarters of Fiscal Year 2006 were \$356.1 million or 49.1% of the annual budgeted amount. Individual categories of expenditures as a percentage of the annual budget were as follows:

Personal Services	51.3%
Fringe Benefits	49.7%
Other Expenses	47.4%
Equipment	51.0%
Student Aid	48.1%
Transfers	31.5%

Personal Services/Fringe Benefits are ahead of budget for the first six months of the fiscal year. The FY06 Operating Fund budget for personal services and fringe benefits was \$443.6 million. The projected FY06 expenditures are \$450.8 million, a variance of \$7.2 million. Primarily as a result of internal reallocations, the University was able to identify resources to fund a net increase of 51 full-time faculty (based on the IPEDS federal reporting standard). The hiring of the additional full-time faculty is an effort to meet the course coverage demands of increased undergraduate enrollment. With the additional faculty, the student to faculty ratio (based on the *U.S. News & World Report* formula) has decreased slightly, from 17.47:1 (Fall 2004) to 17.21:1 (Fall 2005). Finally, part of this variance is a payroll accrual; a portion of this accrual will be offset with additional state support. The personal services and fringe benefits will be monitored closely throughout the year as they represented 63.3% of the first six months of Operating Fund expenditures.

Other Expenses (including energy costs) are expected to be ahead of budget by approximately \$0.6 million. There are several factors contributing to this variance. The largest component is the cost of energy. Energy is expected to be over budget by \$4.3 million. This is largely due to increased unit prices for electricity and gas. In addition, this is a transitional year for energy as the University's cogeneration plant is moving toward completion. Because the cogeneration facility is undergoing extensive operational testing, it is not possible at this time to quantify the financial impact of the shift to cogeneration. Other items in this category are projected to be under budget as resources have been reallocated to enable the faculty hiring noted above.

The revised Fiscal Year 2006 **Equipment** budget (Operating Fund and Research Fund) totals \$21.4 million of which the Operating Fund budget is \$16.0 million. The budget is a substantial increase from previous years and reflects the anticipated expenditure of \$9.0 million of unexpended equipment purchases carried forward from Fiscal Year 2005. As of December 31, 2005, total equipment expenditures were 51.0% of the amount

budgeted and represented 2.3% of the operating expenditures putting the University on target to finish the fiscal year on budget.

Student Aid funds are predominantly spent in the first and third quarter of the fiscal year. Student Aid expenditures were essentially on budget at the end of the second quarter. The operating fund **Transfers** line reflects transfers for bond and installment loan payments and to Plant Funds for various building improvements and renovations. Finally, **Research Fund** expenditures and transfers totaled \$33.8 million and represented 41.5% of the budgeted amount. The decrease in expenditures is due to the departure of faculty due to ERIP and the time delay that new faculty experience in starting up their research projects and reduced federal grant activity for the first six months.

Enrollment

Total University enrollment for Fall 2005 (excluding the Health Center) is up 1.9% from Fall 2004. First time freshmen enrollment is down 0.7% from Fall 2004 however total undergraduate enrollment (degree and non-degree) is up 1.9%. The current year budget was based on a 2.2% increase in total University enrollment and a 3.0% increase in undergraduate enrollment.

Cash Balance

The December 31, 2005 current funds cash balance of \$145.8 million includes \$39.2 million of deferred revenue related to winter intersession and the spring semester which contributed significantly to the \$52.5 million increase from June 30, 2005. Additionally, it reflects the collection of 51.0% of budgeted revenue while total expenditures and transfers were 48.3% of budget. Thus, the cash balance can be expected to decrease as expenditure outlays exceed future revenue collections as the year progresses. The December 31, 2005 current funds cash balance represented 18.0% of the annual expenditure budget as compared to 12.6% one-year ago.

Fund Balance

The University is projected to have a net loss of \$10.6 million for the fiscal year ended June 30, 2006, which is comprised of a budgeted \$8.0 million loss (tied primarily to the expenditure of funds designated for equipment purchases which were not made in FY05) and \$2.6 million due to increased energy costs. This results in a Current Funds Unrestricted Fund Balance of \$37.9 million (Operating Fund-\$20.9 million; Research Fund-\$17.0 million). This represents 5.4% 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 FY 2006 budget, with the exception of the equipment carry forward explained above, assumes a consistent level of departmental fund balances at June 30, 2006. Any variance from this assumption will affect the projected level of the fund balance at year-end.

UNIVERSITY OF CONNECTICUT
Statement of Operating Budget Revenues and Expenses (a)
For the Six Months Ending 12/31/2005

	Operating Budget					Six Months Actual								
	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	\$205,219,028	\$0	\$205,219,028	\$0	\$205,219,028	\$108,673,684	\$0		\$108,673,684	\$0	108,673,684	53.0%	29.2%	
State Allotment Fringe Benefits	75,761,728	0	75,761,728	0	75,761,728	38,669,422	0		38,669,422	0	38,669,422	51.0%	10.4%	
Total State Support	280,980,756	0	280,980,756	0	280,980,756	147,343,106	0		147,343,106	0	147,343,106		39.6%	
Tuition	166,972,831	0	162,829,701	4,143,130	166,972,831	84,927,867	0		81,370,891	3,556,976	84,927,867	50.9%	22.8%	
Fees	68,429,495	0	50,278,783	18,150,712	68,429,495	34,604,369	0		16,453,657	18,150,712	34,604,369	50.6%	9.3%	
Grants & Contracts	115,356,266	80,044,000	34,801,296	510,970	35,312,266	55,975,830	34,925,246	43.6%	21,055,334	(4,750)	21,050,584	75.6%	5.7%	
Foundation	17,101,267	700,000	5,618,267	10,783,000	16,401,267	5,637,967	630	16.3%	2,588,286	3,049,051	5,637,337	56.4%	1.5%	
Investment Income	3,464,468	170,000	3,294,468	0	3,294,468	3,728,103	113,577	66.8%	3,555,298	59,228	3,614,526	109.7%	1.0%	
Sales and Services of Ed Activities	12,674,000	180,000	12,494,000	0	12,494,000	7,196,506	418,405	232.4%	6,778,101	0	6,778,101	54.3%	1.8%	
Aux Enterprise Revenue	123,829,260	0	0	123,829,260	123,829,260	62,640,860	0		0	62,640,860	62,640,860	50.6%	16.8%	
Other Sources	9,420,000	260,000	9,160,000	0	9,160,000	5,366,742	81,078	31.2%	5,285,664	0	5,285,664	57.7%	1.4%	
TOTAL REVENUE	798,228,342	81,354,000	559,457,270	157,417,072	716,874,342	\$407,421,350	\$35,538,936	43.7%	\$284,430,337	\$87,452,077	\$371,882,414	51.9%	100.0%	
DISBURSEMENTS/TRANS:														
Personal Services	371,919,984	40,133,001	289,258,134	42,528,849	331,786,983	188,551,543	18,422,499	45.9%	149,831,884	20,297,160	170,129,044	51.3%	47.8%	
Fringe Benefits	120,750,314	8,913,759	96,738,237	15,098,318	111,836,555	59,915,921	4,280,181	48.0%	48,073,545	7,562,195	55,635,740	49.7%	15.6%	
Other Expenses	196,134,897	25,927,879	100,347,971	69,859,048	170,207,019	89,295,864	8,554,005	33.0%	50,309,136	30,432,723	80,741,859	47.4%	22.7%	
Equipment	21,427,631	5,379,361	11,950,919	4,097,351	16,048,270	10,466,378	2,274,240	42.3%	7,490,096	702,042	8,192,138	51.0%	2.3%	
Fixed Charges/Student Aid (b)	70,550,444	1,000,000	60,490,444	9,060,000	69,550,444	33,669,847	235,990	23.6%	29,456,673	3,977,184	33,433,857	48.1%	9.4%	
Total Expenditures	780,783,270	81,354,000	558,785,704	140,643,566	699,429,270	381,899,553	33,766,915		285,161,334	62,971,304	348,132,638		97.7%	
Mandatory	19,782,956	0	8,691,477	11,091,479	19,782,956	6,569,857	41,749		1,841,823	4,686,285	6,528,108	33.0%	1.8%	
Non Mandatory	5,682,027	0	-	5,682,027	5,682,027	1,453,969	(40,919)		(2,975,671)	4,470,559	1,494,888	26.3%	0.4%	
Total Expense/Transfer	806,248,253	81,354,000	567,477,181	157,417,072	724,894,253	389,923,379	33,767,745	41.5%	284,027,485	72,128,148	356,155,633	49.1%	100.0%	
NET GAIN(LOSS)	(\$8,019,911)	\$0	(\$8,019,911)	0	(\$8,019,911)	\$17,497,971	\$1,771,191		\$402,852	\$15,323,929	\$15,726,781			
NET INC(DEC) CASH BALANCE						<u>\$52,520,685</u>								
CASH BALANCE 6/30/05						<u>\$93,269,849</u>								
CASH BALANCE 12/31/05						<u>\$145,790,534</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 \$1.8 million of Student Labor Financial Aid is included in the Personal Services Line.

UNAUDITED

UNIVERSITY OF CONNECTICUT
Revised Projection of Changes in Net Assets - All Funds
For the Year Ended June 30, 2006

	<u>Operating Fund</u>	<u>Research Fund</u>	<u>Subtotal</u>	<u>Other Funds</u>	<u>Total</u>
<u>Revenues and Expenditures, 6/30/2006</u>					
Revenue	\$ 722,074,342	\$ 74,100,000	\$ 796,174,342	\$ 226,968,659	\$ 1,819,317,343
Expenditures and Transfers	732,694,253	74,100,000	806,794,253	235,496,812	1,849,085,318
Net Increase (Decrease)	<u>\$ (10,619,911)</u>	<u>\$ -</u>	<u>\$ (10,619,911)</u>	<u>\$ (8,528,153)</u>	<u>\$ (29,767,975)</u>
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Net Assets, 6/30/05					
Restricted and invested in capital assets, net of related debt	\$ 11,757,758	\$ (1,863,667)	\$ 9,894,091	\$ 1,267,886,707	\$ 1,277,780,798
Unrestricted	31,504,650	16,992,163	48,496,813	43,179,315	91,676,128
Total, 6/30/05	<u>\$ 43,262,408</u>	<u>\$ 15,128,497</u>	<u>\$ 58,390,904</u>	<u>\$ 1,311,066,022</u>	<u>\$ 1,369,456,926</u>
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Compensated Absences Liability, 6/30/05	\$ 24,836,341				
Change at 6/30/06					
Restricted and invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 8,775,597	\$ 8,775,597
Unrestricted	(10,619,911)	-	(10,619,911)	(17,303,750)	(27,923,661)
Subtotal, 6/30/06	<u>\$ (10,619,911)</u>	<u>\$ -</u>	<u>\$ (10,619,911)</u>	<u>\$ (8,528,153)</u>	<u>\$ (19,148,064)</u>
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Net Assets, 6/30/06					
Restricted and invested in capital assets, net of related debt	\$ 11,757,758	\$ (1,863,667)	\$ 9,894,091	\$ 1,276,662,304	\$ 1,286,556,395
Unrestricted	20,884,739	16,992,163	37,876,902	25,875,565	63,752,467
Total, 6/30/06	<u>\$ 32,642,497</u>	<u>\$ 15,128,497</u>	<u>\$ 47,770,993</u>	<u>\$ 1,302,537,869</u>	<u>\$ 1,350,308,862</u>
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Compensated Absences Liability, 6/30/06	\$ 24,504,010				