

**University of Connecticut (Storrs & Regional Campuses)**  
**Overview of the Quarterly Report of the Operating and Research Funds**  
**Analysis of the Nine Months Ended March 31, 2006**

**Summary:** The following narrative provides information on the main drivers of the financial results for the University Storrs-based operating budget for the nine months ended March 31, 2006.

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.

Actual results at March 31, 2006 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 March 31<sup>st</sup>.

Financial results for the first nine 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 \$8.0 million. Revenues and expenditures have variances among various categories. The expected net result is a positive variance of \$10.8 million in revenues. Expenditures in the Operating Fund are expected to be over budget by \$10.8 million. The Research Fund budget is \$81.3 million; however, it appears that by year end the total activity will be \$72.8 million resulting in an \$8.5 million variance.

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

**Revenues – Operating Fund**

Total **Operating fund** revenue collections for the first nine months of FY2006 were \$627.1 million which represented 87.5% of the annual budget. A major source of revenue, **State Support** totaling \$217.0 million, consisted of a \$156.5 million appropriation and a fringe benefit allotment of \$60.5 million. State Support represented 34.6% of total Operating Fund nine 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 accrued 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 \$165.6 million, which represented 26.4% of total Operating Fund nine month receipts. Tuition receipts for the first three quarters of Fiscal Year 2006 were 99.2% 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 the 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. Fee revenue for the period ending March 31, 2006 was \$62.2 million or 90.9% of the amount budgeted for the year.

**Auxiliary Enterprise Revenue** for the first three quarters of Fiscal Year 2006 was \$111.2 million which represented 89.8% of the annual budgeted amount. Auxiliary revenue consists primarily of Room and Board Fees and Athletic Department receipts and is expected to be under budget primarily due to rebates given to residential students to compensate them for changes in their summer accommodations. Although the need for additional code compliance construction was discovered last year in residential facilities, it initially did not appear necessary to close the facilities early. However, after further analysis, it was determined that early closure is necessary and therefore a refunding of fees is required.

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).

**Grants and Contracts** revenue consists primarily of restricted revenues from a granting agency or donor. At the end of the third quarter, Grants and Contracts revenue of \$38.7 million is ahead of budget and is projected to exceed the budget for the year. Also, expected support from the UConn Foundation of \$16.4 million is projected to be on budget for the year.

**Investment Income** has already exceeded the FY06 budget with revenues of \$5.6 million by the close of the third quarter while the total budget was \$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 \$7.2 million. The additional \$3.9 million in revenue will be applied to the Other Expenses category to cover the increases in energy costs.

**Sales and Services of Educational Activities and Other Revenue** totaled \$18.5 million for the first three quarters and are projected to end the year over budget by \$2.9 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 nine months, Research Fund revenues were \$51.8 million and represented 63.7% of the amount budgeted. Based on activity to date and prior year history, the projected Research Fund revenues will be \$72.8 million at year end compared with the original budget of \$81.3 million. This reflects the continued decline in federal grant funding. The projected expenditure of \$72.8 million does not include an adjustment moving expenditures from the Research Fund to the Operating Fund for Institute of Materials Science activity. This adjustment is expected to take place by year-end and will further reduce the projected \$72.8 million expenditure.

### **Expenditures/Transfers**

**Total Operating Fund** expenditures and transfers for the first three quarters of Fiscal Year 2006 were \$548.1 million or 75.6% of the annual budgeted amount. Individual categories of expenditures as a percentage of the annual budget were as follows:

Personal Services	76.6%
Fringe Benefits	75.1%
Other Expenses	73.5%
Equipment	67.1%
Student Aid	91.8%
Transfers	40.6%

**Personal Services/Fringe Benefits** are ahead of budget for the first nine 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 \$453.5 million, a variance of \$9.9 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 61.7% of the first nine months of Operating Fund expenditures.

**Other Expenses** (including energy costs) are expected to be over budget by approximately \$0.9 million. There are several factors contributing to this variance. 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.

The 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 March 31, 2006, total Operating Fund equipment expenditures were 67.1% of the amount budgeted and represented 2% of the expenditures. However, Auxiliary Enterprise expenditures total \$1.1 million and only represented 26.1% of the budgeted amount. As a result, equipment expenditures are under 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 third 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 \$49.9 million and represented 61.4% of the budgeted amount. The decrease in expenditures is due to the departure of faculty through ERIP and the time delay that new faculty experience in starting up their research projects, and reduced federal grant activity for the first nine 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 March 31, 2006 current funds cash balance of \$152.3 million reflects the collection of 85.1% of budgeted revenue while total expenditures and transfers were 74.2% of budget. Thus, the cash balance can be expected to decrease as expenditure outlays exceed future revenue collections as the year progresses. The March 31, 2006 current funds cash balance represented 18.9% of the annual expenditure budget as compared to 15.7% one-year ago.

### **Fund Balance**

The University is projected to have a net loss of \$8.0 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). The projected net loss for the period ending December 31, 2005 was \$10.6 million. As noted above, additional investment income will be used to offset increased energy costs and thus reduce the projected deficit. This results in a Current Funds Unrestricted Fund Balance of \$40.5 million (Operating Fund-\$23.5 million; Research Fund-\$17.0 million). This represents 5.8% 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 Nine Months Ending 3/31/2006 for the 9 Month Financials**

	Operating Budget					Nine Months Actual w/accruals,etc - 3/31/06							
	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		
<b>REVENUE</b>													
State Appropriations	\$205,219,028	\$0	\$205,219,028	\$0	\$205,219,028	\$156,521,957	\$0		\$156,521,957	\$0	156,521,957	76.3%	25.0%
State Allotment Fringe Benefits	75,761,728	0	75,761,728	0	75,761,728	60,457,437	0		60,457,437	0	60,457,437	79.8%	9.6%
<b>Total State Support</b>	<b>280,980,756</b>	<b>0</b>	<b>280,980,756</b>	<b>0</b>	<b>280,980,756</b>	<b>216,979,394</b>	<b>0</b>		<b>216,979,394</b>	<b>0</b>	<b>216,979,394</b>		<b>34.6%</b>
Tuition	166,972,831	0	162,829,701	4,143,130	166,972,831	165,562,096	0		162,005,120	3,556,976	165,562,096	99.2%	26.4%
Fees	68,429,495	0	50,278,783	18,150,712	68,429,495	62,184,960	0		44,034,248	18,150,712	62,184,960	90.9%	9.9%
Grants & Contracts	115,356,266	80,044,000	34,801,296	510,970	35,312,266	89,246,514	50,579,999	63.6%	38,270,369	396,146	38,666,515	133.0%	6.2%
Foundation	17,101,267	700,000	5,618,267	10,783,000	16,401,267	8,609,686	302,042	104.8%	4,046,044	4,261,600	8,307,644	84.5%	1.3%
Investment Income	3,464,468	170,000	3,294,468	0	3,294,468	5,990,582	431,339	253.7%	5,460,093	99,150	5,559,243	168.7%	0.9%
Sales and Services of Ed Activities	12,674,000	180,000	12,494,000	0	12,494,000	11,404,860	446,923	248.3%	10,957,937	0	10,957,937	87.7%	1.7%
Aux Enterprise Revenue	123,829,260	0	0	123,829,260	123,829,260	111,229,103	0		0	111,229,103	111,229,103	89.8%	17.7%
Other Sources	9,420,000	260,000	9,160,000	0	9,160,000	7,727,275	87,342	33.6%	7,632,957	6,976	7,639,933	83.4%	1.2%
<b>TOTAL REVENUE</b>	<b>798,228,342</b>	<b>81,354,000</b>	<b>559,457,270</b>	<b>157,417,072</b>	<b>716,874,342</b>	<b>\$678,934,470</b>	<b>\$51,847,645</b>	<b>63.7%</b>	<b>\$489,386,162</b>	<b>\$137,700,663</b>	<b>\$627,086,825</b>	<b>87.5%</b>	<b>100.0%</b>
<b>DISBURSEMENTS/TRANS:</b>													
Personal Services	371,919,984	40,133,001	289,258,134	42,528,849	331,786,983	280,424,055	26,161,238	65.2%	222,565,573	31,697,244	254,262,817	76.6%	46.4%
Fringe Benefits	120,750,314	8,913,759	96,738,237	15,098,318	111,836,555	90,189,308	6,242,069	70.0%	72,264,557	11,682,682	83,947,239	75.1%	15.3%
Other Expenses	196,134,897	25,927,879	100,347,971	69,859,048	170,207,019	138,569,168	13,549,049	52.3%	76,587,041	48,433,078	125,020,119	73.5%	22.8%
Equipment	21,427,631	5,379,361	11,950,919	4,097,351	16,048,270	14,155,863	3,384,046	62.9%	9,704,078	1,067,739	10,771,817	67.1%	2.0%
Fixed Charges/Student Aid (b)	70,550,444	1,000,000	60,490,444	9,060,000	69,550,444	64,290,749	477,345	47.7%	56,044,423	7,768,981	63,813,404	91.8%	11.6%
Total Expenditures	780,783,270	81,354,000	558,785,704	140,643,566	699,429,270	587,629,143	49,813,748		437,165,671	100,649,724	537,815,395		98.1%
Mandatory	19,782,956	0	8,691,477	11,091,479	19,782,956	7,082,361	54,907		2,335,555	4,691,899	7,027,454	35.5%	1.3%
Non Mandatory	5,682,027	0	-	5,682,027	5,682,027	3,362,215	57,950		(1,293,141)	4,597,407	3,304,265	58.2%	0.6%
Total Expense/Transfer	806,248,253	81,354,000	567,477,181	157,417,072	724,894,253	598,073,719	49,926,605	61.4%	438,208,085	109,939,029	548,147,114	75.6%	100.0%
<b>NET GAIN(LOSS)</b>	<b>(\$8,019,911)</b>	<b>\$0</b>	<b>(\$8,019,911)</b>	<b>0</b>	<b>(\$8,019,911)</b>	<b>\$80,860,751</b>	<b>\$1,921,040</b>		<b>\$51,178,077</b>	<b>\$27,761,634</b>	<b>\$78,939,711</b>		
<b>NET INC(DEC) CASH BALANCE</b>						<u>\$58,991,846</u>							
<b>CASH BALANCE 6/30/05</b>						<u>\$93,354,266</u>							
<b>CASH BALANCE 3/31/06</b>						<u>\$152,346,113</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>
<b><u>Revenues and Expenditures, 6/30/2006</u></b>					
Revenue	\$ 727,674,342	\$ 72,848,000	\$ 800,522,342	\$ 226,968,659	\$ 1,828,013,343
Expenditures and Transfers	735,694,253	72,848,000	808,542,253	235,496,812	1,852,581,318
Net Increase (Decrease)	<u>\$ (8,019,911)</u>	<u>\$ -</u>	<u>\$ (8,019,911)</u>	<u>\$ (8,528,153)</u>	<u>\$ (24,567,975)</u>
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Net Assets, 6/30/05					
Restricted and invested in capital 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 net of related debt	\$ -	\$ -	\$ -	\$ 8,775,597	\$ 8,775,597
Unrestricted	(8,019,911)	-	(8,019,911)	(17,303,750)	(25,323,661)
Subtotal, 6/30/06	<u>\$ (8,019,911)</u>	<u>\$ -</u>	<u>\$ (8,019,911)</u>	<u>\$ (8,528,153)</u>	<u>\$ (16,548,064)</u>
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Net Assets, 6/30/06					
Restricted and invested in capital net of related debt	\$ 11,757,758	\$ (1,863,667)	\$ 9,894,091	\$ 1,276,662,304	\$ 1,286,556,395
Unrestricted	23,484,739	16,992,163	40,476,902	25,875,565	66,352,467
Total, 6/30/06	<u>\$ 35,242,497</u>	<u>\$ 15,128,497</u>	<u>\$ 50,370,993</u>	<u>\$ 1,302,537,869</u>	<u>\$ 1,352,908,862</u>
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Compensated Absences Liability, 6/30/06	\$ 24,504,010				